



**LANNA RESOURCES PUBLIC COMPANY LIMITED**

**MANAGEMENT DISCUSSION AND ANALYSIS**



**FOR THE CONSOLIDATED FINANCIAL STATEMENTS  
OF THE 2ND QUARTER 2017  
AND THE FIRST 6-MONTH PERIOD OF 2017**



# LANNA RESOURCES PUBLIC COMPANY LIMITED

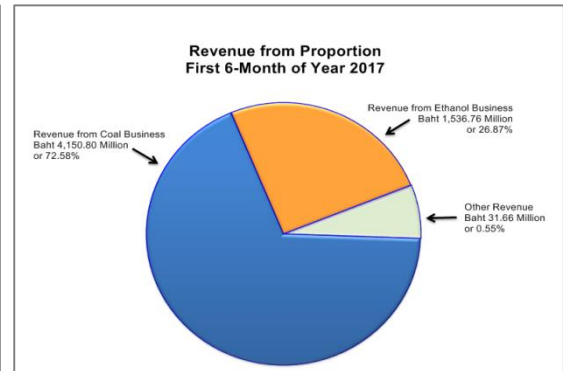
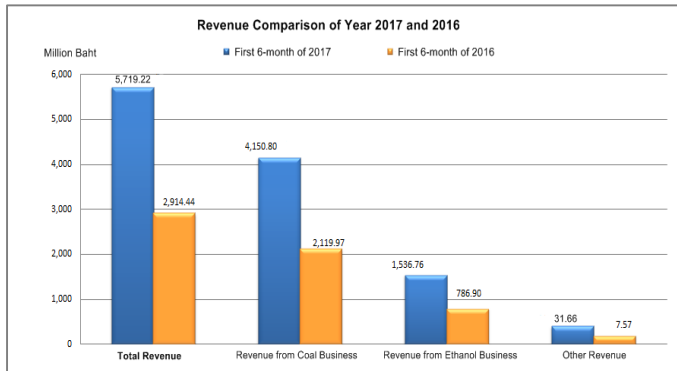
## MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2<sup>nd</sup> Quarter 2017  
and the First 6-Month Period of 2017)

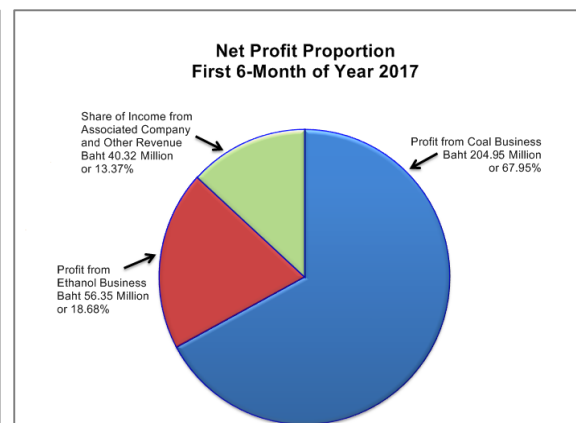
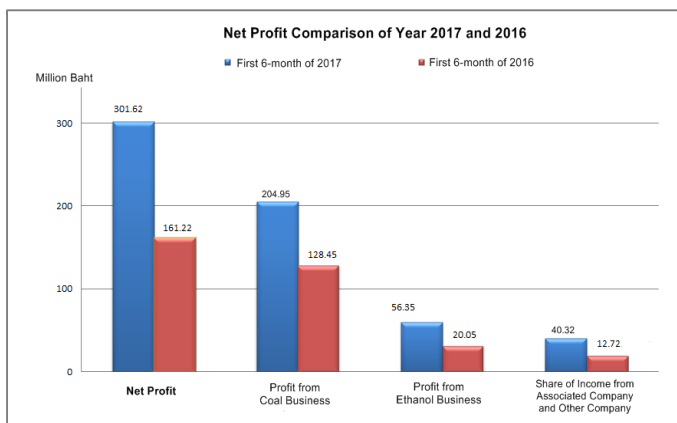
### OVERALL OPERATING RESULTS

The overall operating results of the Company and subsidiary companies during in the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 were considered excellent. The revenue and net profit increased quite a lot from the same period last year due to an increase in coal selling price, which is the Company's core business. For ethanol business, regarded as a secondary core business, still continued to be profitable. In conclusion, the Company and subsidiary companies had much better earnings efficiency.

The Company and subsidiary companies had total revenue in the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 of Baht 2,914.44 million and 5,719.22 million. In comparison with the same period last year, the revenue increased by Baht 650.02 million and 882.01 million or 28.71 and 18.23 percent. The revenue proportion from coal business, ethanol business and other revenue in the first 6-month period of 2017 accounted for 72.58, 26.87 and 0.55 percent, respectively.



The Company and subsidiary companies had total net profit during in the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 of Baht 161.22 million and 301.62 million or net earnings per share of Baht 0.31 and 0.57. In comparison with the same period last year, the net profit increased by Baht 111.78 million and 117.13 million or 226.09 and 63.49 percent. The net profit proportion from coal business, ethanol business, and share of income from the associated company and other revenue in the first 6-month period of 2017 accounted for 67.95, 18.68 and 13.37 percent, respectively.



The overall financial status and liquidity of the Company and subsidiary companies as at June 30, 2017 were considered excellent. The current ratio is at 1.97 times but the total debt to total assets ratio was only 30.31 percent with debt to equity ratio of only 43.48 percent. The cash cycle in the first 6-month period of 2017 was only 34 days, which considered satisfactory, decreased from the same period last year by 7 days.

**COAL BUSINESS:** Global coal prices had been rising since the second half of the past year 2016, resulting in excellent improvement of revenue and net profit of the Company and subsidiary companies. The revenue from the coal business, which is the core business, in the 2<sup>nd</sup> quarter 2017 totaled Baht 2,119.97 million, which increased from the same period last year by Baht 548.43 million or 34.90 percent, due to an increase in coal sales volume and average coal selling price of 0.27 and 34.54 percent, respectively. The revenue from coal business in the first 6-month period of 2017, totaled Baht 4,150.80 million, which increased from the same period last year by Baht 694.52 million or 20.09 percent, despite the increase in coal sales volume of 9.29 percent but the average coal selling price increased by 32.39 percent. The net profit derived from shareholding proportion of the Company in the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 were Baht 128.45 million and 204.95 million, which increased from the same period last year by Baht 112.96 million and 143.81 million or 729.24 and 235.21 percent, respectively.

**ETHANOL BUSINESS:** The total revenue from ethanol business, which is the Company's secondary core business, in the 2<sup>nd</sup> quarter 2017 and the first 6-month period of 2017 totaled Baht 786.90 million and 1,536.76 million, which increased from the same period last year by Baht 106.25 million and 205.90 million or 15.61 and 15.47 percent. This was due to an increase in ethanol sales volume from the same period last year of 0.67 and 3.32 percent, and increase in average ethanol selling price from the same period last year of 14.84 and 11.78 percent, respectively, in accordance with the increase in ethanol demand. The net profit derived from shareholding proportion of the Company in the 2<sup>nd</sup> quarter 2017 was Baht 20.05 million, which increased from the same period last year by Baht 1.24 million or 6.59 percent. The net profit derived from shareholding proportion of the Company in the first 6-month period of 2017 was Baht 56.35 million, which decreased from the same period last year by Baht 7.70 million or 12.02 percent. However, the ethanol business still continues to be profitable as well.

## OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2017	2/2017	2/2016	YoY (%)	QoQ (%)	2017	2016	
Revenue from Coal Sales	2,030.83	2,119.97	1,571.54	34.90	4.39	4,150.80	3,456.28	20.09
Revenue from Ethanol Sales	749.86	786.90	680.65	15.61	4.94	1,536.76	1,330.86	15.47
Other Revenue	25.31	7.57	12.23	(38.10)	(70.09)	31.66	50.07	(36.77)
<b>Total Revenue</b>	<b>2,806.00</b>	<b>2,914.44</b>	<b>2,264.42</b>	<b>28.71</b>	<b>3.86</b>	<b>5,719.22</b>	<b>4,837.21</b>	<b>18.23</b>

## REVENUE

(1) The revenue of the Company and subsidiary companies in the 2<sup>nd</sup> quarter 2017 totaled Baht 2,914.44 million, which increased from the same period last year by Baht 650.02 million or 28.71 percent due to the following reasons:

(1.1) Revenue from coal business totaled Baht 2,119.97 million, which increased from the same period last year by Baht 548.43 million or 34.90 percent. This was due to the increase in average coal selling price as mentioned above.

(1.2) Revenue from ethanol business totaled Baht 786.90 million, which increased from the same period last year by Baht 106.25 million or 15.61 percent. This was due the increase in ethanol sales volume and ethanol selling price as mentioned above.

(1.3) Other revenue totaled Baht 7.57 million, which decreased from the same period last year by Baht 4.66 million or 38.10 percent due to the decrease in foreign exchange gain and interest received.

(2) The revenue of the Company and subsidiary companies in the first 6-month period of 2017 totaled Baht 5,719.22 million, which increased from the same period last year by Baht 882.01 million or 18.23 percent due to the following reasons:

(2.1) Revenue from coal business totaled Baht 4,150.80 million, which increased from the same period last year by Baht 694.52 million or 20.09 percent. This was due to the increase in average coal selling price as mentioned above.

(2.2) Revenue from ethanol business totaled Baht 1,536.76 million, which increased from the same period last year by Baht 205.90 million or 15.47 percent. This was due the increase in ethanol sales volume and ethanol selling price as mentioned above; and

(2.3) Other revenue totaled Baht 31.66 million, which decreased from the same period last year by Baht 18.41 million or 36.77 percent due to the decrease in foreign exchange gain and interest received.

Expenses (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2017	2/2017	2/2016	YoY (%)	QoQ (%)	2017	2016	
<b>Coal Business</b>								
Cost of sales	1,264.37	1,265.55	1,114.21	13.58	0.09	2,529.91	2,437.70	3.78
Selling and administrative expenses	484.02	535.70	418.97	27.86	10.68	1,018.52	860.38	18.38
Financial cost	8.05	8.85	0.83	966.27	9.94	16.90	2.32	628.45
Corporate income tax	112.01	84.68	20.85	306.14	(24.40)	196.66	67.60	190.92
<b>Ethanol Business</b>								
Cost of sales	648.10	720.38	613.14	17.49	11.15	1,368.48	1,140.38	20.00
Selling and administrative expenses	13.77	15.44	17.19	(10.18)	12.13	29.20	30.87	(5.41)
Financial cost	9.56	9.29	9.98	(6.91)	(2.82)	18.85	20.84	(9.55)
Corporate income tax	6.93	1.80	2.39	(24.69)	(74.03)	8.75	12.07	(27.51)

## COAL BUSINESS

(1) Coal business expenses in the 2<sup>nd</sup> quarter 2017 totaled Baht 1,894.78 million, which increased from the same period last year by Baht 339.92 million or 21.86 percent, due to the following reasons:

(1.1) Cost of coal sales increased from the same period last year by Baht 151.34 million or 13.58 percent, as coal sales volume and cost of coal sales increased by 0.27 and 13.28 percent, respectively.

(1.2) Selling and administrative expenses increased from the same period last year by Baht 116.73 million or 27.86 percent due to the increase in coal sales volume and coal selling price.

(1.3) Financial expenses increased from the same period last year by Baht 8.02 million or 966.27 percent due to an increase in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(1.4) Corporate income tax increased from the same period last year by Baht 63.83 million or 306.14 percent due to the increase in profit.

(2) Coal business expenses in the first 6-month period of 2017 totaled Baht 3,761.99 million, which increased from the same period last year by Baht 393.99 million or 11.70 percent, due to the following reasons:

(2.1) Cost of coal sales increased from the same period last year by Baht 92.21 million or 3.78 percent, despite the decrease in coal sales volume by 9.29 percent but the average cost of coal sales increased by 14.41 percent.

(2.2) Selling and administrative expenses increased from the same period last year by Baht 158.14 million or 18.38 percent due to the increase in revenue from coal sales.

(2.3) Financial expenses increased from the same period last year by Baht 14.58 million or 628.45 percent due to an increase in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(2.4) Corporate income tax increased from the same period last year by Baht 129.06 million or 190.92 percent due to the increase in profit.

### **ETHANOL BUSINESS EXPENSES**

(1) Ethanol business expenses in the 2<sup>nd</sup> quarter 2017 totaled Baht 746.91 million, which increased from the same period last year by Baht 104.21 million or 16.21 percent, due to the following reasons:

(1.1) Cost of ethanol sales increased from the same period last year by 107.24 million or 17.49 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 0.67 and 19.78 percent, respectively.

(1.2) Selling and administrative expenses decreased from the same period last year by Baht 1.75 million or 10.18 percent due to the decrease in transportation cost.

(1.3) Financial expenses decreased from the same period last year by Baht 0.69 million or 6.91 percent due to loan repayment according to terms and repayment schedule in the loan agreement; and

(1.4) 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 1.80 million, which decreased from the same period last year by Baht 0.59 million or 24.69 percent.

(2) Ethanol business expenses in the first 6-month period of 2017 totaled Baht 1,425.28 million, which increased from the same period last year by Baht 221.12 million or 18.36 percent, due to the following reasons:

(2.1) Cost of ethanol sales increased from the same period last year by Baht 228.10 million or 20 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 3.32 and 18.23 percent, respectively.

(2.2) Selling and administrative expenses decreased from the same period last year by Baht 1.67 million or 5.41 percent due to the decrease in transportation cost.

(2.3) Financial expenses decreased from the same period last year by Baht 1.99 million or 9.55 percent due to loan repayment according to terms and repayment schedule in the loan agreement; and

(2.4) 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 8.75 million, which decreased from the same period last year by Baht 3.32 million or 27.51 percent due to the decrease in profit.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>2<sup>nd</sup> Quarter (April - June)</b>						
<b>Year 2017</b>						
Revenues from sales	2,119.97	100.00	786.90	100.00	2,906.87	100.00
Less Cost of sales	1,265.55	59.70	720.38	91.55	1,985.93	68.32
<b>Gross Profit</b>	<b>854.42</b>	<b>40.30</b>	<b>66.52</b>	<b>8.45</b>	<b>920.94</b>	<b>31.68</b>
<b>Year 2016</b>						
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
<b>Gross Profit</b>	<b>457.33</b>	<b>29.10</b>	<b>67.51</b>	<b>9.92</b>	<b>524.84</b>	<b>23.30</b>
<b>6-Month Period (January – June)</b>						
<b>Year 2017</b>						
Revenues from sales	4,150.80	100.00	1,536.76	100.00	5,687.56	100.00
Less Cost of sales	2,529.91	60.95	1,368.48	89.05	3,898.39	68.54
<b>Gross Profit</b>	<b>1,620.89</b>	<b>39.05</b>	<b>168.28</b>	<b>10.95</b>	<b>1,789.17</b>	<b>31.46</b>
<b>Year 2016</b>						
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
<b>Gross Profit</b>	<b>1,018.58</b>	<b>29.47</b>	<b>190.48</b>	<b>14.31</b>	<b>1,209.06</b>	<b>25.26</b>

## GROSS PROFIT

(1) Gross profit of the Company and subsidiary companies in the 2<sup>nd</sup> quarter 2017 totaled Baht 920.94 million, or 31.68 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of Baht 524.84 million or 23.30 percent of the sales revenue, due to the following reasons:

(1.1) Gross profit from coal business was 40.30 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of 29.10 of the sales revenue. This was due to the increase in average coal selling price of 34.54 percent, while the cost of coal sales increased by only 13.28 percent; and

(1.2) Gross profit from ethanol business was 8.45 percent of the sales revenue from the decrease in sales as compared with the same period last year with gross profit of 9.92 percent of the sales revenue. Despite the increase in average ethanol selling price of 14.84 percent, but the cost of ethanol sales increased by 16.71 percent.

(2) The Company's gross profit in the first 6-month period of 2017 totaled Baht 1,789.17 million, or 31.46 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of Baht 1,209.06 million or 25.26 percent of the sales revenue, due to the following reasons:

(2.1) Gross profit from coal business was 39.05 percent of the sales revenue from the increase in sales as compared with the same period last year with gross profit of 29.47 of the sales revenue. This was due to the increase in average coal selling price of 32.39 percent, while the cost of coal sales increased by only 14.41 percent; and

(2.2) Gross profit from ethanol business was 10.95 percent of the sales revenue from the decrease in sales as compared with the same period last year with gross profit of 14.31 percent of the sales revenue. Despite the increase in average ethanol selling price of 11.78 percent, but the cost of ethanol sales increased by 16.14 percent.

Net Profit (Unit: Million Baht)	Quarter			Increase (Decrease)		6-Month Period (Jan – June)		Increase (Decrease) (%)
	1/2017	2/2017	2/2016	YoY (%)	QoQ (%)	2017	2016	
Profit from Coal Business	75.27	128.45	15.49	729.24	70.65	204.95	61.14	235.21
Profit from Ethanol Business	36.30	20.05	18.81	6.59	(44.77)	56.35	64.05	(12.02)
Other revenue and share of income from associated company	28.83	12.72	15.14	(15.98)	(55.88)	40.32	59.30	(32.01)
<b>Net Profit</b>	<b>140.40</b>	<b>161.22</b>	<b>49.44</b>	<b>226.09</b>	<b>14.83</b>	<b>301.62</b>	<b>184.49</b>	<b>63.49</b>
<b>Net Earnings per Share (Baht per Share)</b>	<b>0.27</b>	<b>0.31</b>	<b>0.09</b>	<b>226.09</b>	<b>14.83</b>	<b>0.57</b>	<b>0.35</b>	<b>63.49</b>
<b>Remarks: Registered par value of Baht 1 per share</b>								

## NET PROFIT

(1) The net profit of the Company and subsidiary companies in the 2<sup>nd</sup> quarter 2017 totaled Baht 161.22 million, or net earnings per share of Baht 0.31, which increased from the same period last year by Baht 111.78 million or an increase in net earnings per share of Baht 0.22 or 226.09 percent, due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 128.45 million or 79.67 percent of the total net profit, which increased from the same period last year by Baht 112.96 million or 729.24 percent. This was due to the increase in coal sales volume and average coal selling price of 0.27 and 34.54 as mentioned above.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 20.05 million or 12.44 percent of the total net profit, which increased from the same period last year by Baht 1.24 million or 6.59 percent due to the increase in ethanol sales volume and average ethanol selling price of 0.67 and 14.84 percent as mentioned above; and

(1.3) Share of income from associated company and other revenue were Baht 12.72 million or 7.89 percent of the total net profit, which decreased from the same period last year by Baht 2.42 million or 15.98 percent due to the decrease in foreign exchange gain and interest received as mentioned above.

(2) The net profit of the Company and subsidiary companies in the first 6-month period of 2017 totaled Baht 301.62 million, or net earnings per share of Baht 0.57, which increased from the same period last year by Baht 117.13 million or an increase in net earnings per share of Baht 0.22 or 63.49 percent, due to the following reasons:

(2.1) Net profit from coal business derived from shareholding proportion of the Company was Baht 204.95 million or 67.95 percent of the total net profit, which increased from the same period last year by Baht 143.81 million or 235.21 percent. This was due to the increase in the average coal selling price of 32.39 percent as mentioned above.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 56.35 million or 18.68 percent of the total net profit, which decreased from the same period last year by Baht 7.70 million or 12.02 percent due to the increase in average ethanol cost of sales of 16.14 percent as mentioned above; and

(2.3) Share of income from associated company and other revenue were Baht 40.32 million or 13.37 percent of the total net profit, which decreased from the same period last year by Baht 18.98 million or 32.01 percent due to the decrease in foreign exchange gain and interest received as mentioned above.

## EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company and subsidiary companies in the first 6-month period of 2017 was Baht 1,159.50 million, which increased from the same period last year by Baht 536.03 million or 85.98 percent and EBITDA margin was at 20.27 percent, which increased from the same period last year by 57.29 percent.

(2) Net profit margin of the Company and subsidiary companies in the first 6-month period of 2017 was at 9.45 percent, which increased from the same period last year by 66.70 percent.

(3) Return on equity of the Company and subsidiary companies in the first 6-month period of 2017 was at 7.26 percent, which increased from the same period last year by 66.32 percent.

(4) Return on total assets of the Company and subsidiary companies in the first 6-month period of 2017 was at 6.38 percent, which increased from the same period last year by 97.43 percent. The return on fixed assets in the first 6-month period 2017 was at 25.18 percent, which increased from the same period last year by 60.61 percent.

## STATEMENT OF FINANCIAL POSITION

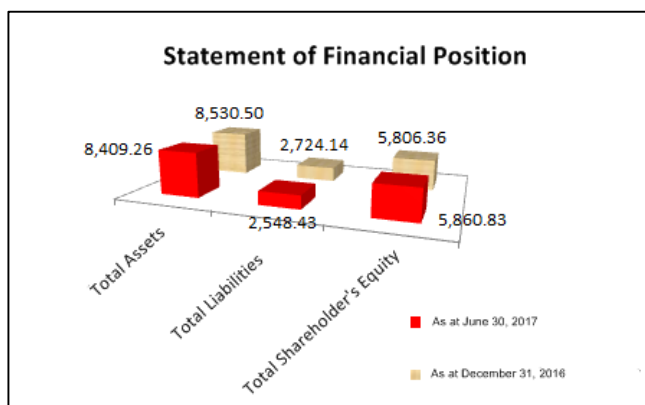
Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at June 30, 2017	As at December 31, 2016	Million Baht	%
Total Assets	8,409.26	8,530.50	(121.24)	(1.42)
Total Liabilities	2,548.43	2,724.14	(175.71)	(6.45)
Total Shareholders' Equity	5,860.83	5,806.36	54.47	0.94
<b>Book Value-Baht per Share</b>	<b>7.97</b>	<b>7.84</b>	<b>0.13</b>	<b>1.66</b>
<b>Remark: Registered par value of Baht 1 per share</b>				

**ASSETS:** The total assets of the Company and subsidiary companies as at June 30, 2017 decreased from end of year 2016 by Baht 121.24 million or 1.42 percent, due to (1) Current assets decreased by Baht 63.27 million or 1.60 percent, consisting of: (A) Cash and cash equivalent increased by Baht 257.09 million or 19.32 percent; (B) Trade accounts receivable and other accounts receivable increased by Baht 431.28 million or 69.95 percent; (C) Inventories increased by Baht 220.41 million or 47.87 percent; and (D) Other current assets most of which were prepaid corporate income tax, prepaid expenses, etc., decreased by Baht 972.05 million or 62.39 percent; and (2) Non-current assets, most of which were properties, buildings and equipment decreased by Baht 57.97 million or 1.27 percent.

**LIABILITIES:** The total liabilities of the Company and subsidiary companies as at June 30, 2017 decreased from end of year 2016 by Baht 175.71 million or 6.45 percent, due to (1) Trade accounts payable and other accounts payable decreased by Baht 66.69 million or 13.85 percent (2) Loan decreased by Baht 264.78 million or 19.92 percent (3) Accrued expenses, most of which were overburden removal expenses and freight cost, etc., increased by Baht 230.43 million or 76.92 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 74.67 million or 12.16 percent.



**TOTAL SHAREHOLDERS' EQUITY:** The total shareholders' equity of the Company and subsidiary companies as at June 30, 2017 increased from end of year 2016 by Baht 54.47 million or 0.94 percent, resulting in an increase of the share's book value from Baht 7.84 per share to Baht 7.97 per share, an increase of Baht 0.13 per share or 1.66 percent. This was due to: (1) an increase in retained earnings of Baht 149.37 million or 5.49 percent due to an increase in net profit



of Baht 301.62 million but there was dividend payment of Baht 152.25 million (2) a net decrease in translation adjustment differences of Baht 82.38 million or 70.12 percent; and (3) a decrease in minority shareholders' equity of Baht 12.52 million or 0.74 percent.

### CASH FLOWS

Description	Unit: Million Baht	
	First 6-Month Period of 2017	First 6-Month Period of 2016
Cash Flows from (used in) Operating Activities	<b>1,354.63</b>	<b>907.70</b>
Cash Flows from (used in) Investing Activities	<b>(445.67)</b>	<b>(209.17)</b>
Cash Flows from (used in) Financing Activities	<b>(670.19)</b>	<b>(695.69)</b>
Increase (Decrease) in Translation Adjustments in Financial Statements	<b>16.56</b>	<b>18.71</b>
Net Increase (Decrease) in Cash	<b>255.33</b>	<b>21.55</b>
Cash at the beginning of the period	<b>698.17</b>	<b>660.15</b>
<b>Cash at the end of the period</b>	<b>953.50</b>	<b>681.70</b>

(1) The net cash from operating activities of the Company and subsidiary companies in the first 6-month period of 2017 totaled Baht 1,354.63 million, consisting of: (A) income before corporate income tax and interest expense of Baht 746.02 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 418.56 million, most of which were mostly transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 205.67 million; (D) an increase in operating liabilities of Baht 26.31 million; and (E) an increase in interest received of Baht 9.69 million but interest expense and taxes increased by Baht 51.62 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in the first 6-month period of 2017 totaled Baht 445.67 million, consisting of: (A) properties, buildings and equipment increased by Baht 176.86 million, most of which were the coal transport jetty construction transaction of the Company and construction of waste water treatment system of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 213.91 million; and (C) short-term capital investment and other items increased by Baht 54.90 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in the first 6-month period of 2017 totaled Baht 670.19 million, consisting of: (A) a decrease in loan of Baht 266.43 million, (B) dividend payment of Baht 354.27 million, and (C) a decrease in minority shareholders' equity of Baht 49.49 million.

## **ASSET MANAGEMENT CAPABILITY**

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at June 30, 2017 were 12.46 percent of total assets. The provisions of doubtful debts are considered based on review of receivable period and assessment of past debt collection experience. Therefore, there was no provision for doubtful debt in the 2<sup>nd</sup> quarter 2017.

(2) Inventory of the Company and subsidiary companies as at June 30, 2017 was 8.10 percent of total assets without deterioration or impairment of the products. Therefore, there was no allowance for impairment loss on inventory in the 2<sup>nd</sup> quarter 2017.

(3) The Company's goodwill caused by investment in the subsidiary company in Indonesia as at June 30, 2017 was accounted for 2.21 percent of total assets, which the Company had 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 2<sup>nd</sup> quarter 2017.

## **LIQUIDITY AND SUFFICIENCY OF CAPITAL**

(1) The Company's total debt to equity ratio as at June 30, 2017 was as low as 0.43:1 with appropriate capital structure. The Company is still able to borrow additional capital for future investment projects as the interest coverage ratio in the first 6-month period of 2017 was as high as 44.64 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, 2017 were as high as 1.97 times and 1.32 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 first 6-month period of 2017 was at 34 days, which was considered good and decreased from the same period last year by 7 days. The average debt collection period was at 26 days, which decreased from the same period last year by 4 days. The average inventory turnover was at 26 days, which decreased from the same period last year by 2 days, but the average debt repayment period was at 18 days, which increased from the same period last year by 1 day.

## **DEBT OBLIGATION**

The subsidiary company in a business of ethanol production and distribution for fuel purpose has obligation according to the terms and conditions of the loan agreement with a local commercial bank as follows:

(1) The subsidiary company must maintain its debt to equity ratio (D/E ratio) not exceeding 2 times and debt service coverage ratio (DSCR) of no less than 1.25 times until the expiration of the loan agreement. The subsidiary company is able to maintain the D/E ratio and DSCR as required by the contractual obligation of the loan without any default.

(2) The lending bank has stipulated that the Company must maintain its shareholding proportion in the subsidiary company of no less than 50 percent of the total number of shares during the whole duration of the loan agreement. Accordingly, the Company has no plan to decrease its shareholding proportion in the subsidiary company to below 50 percent of the total number of shares.

(3) The lending bank has stipulated that the subsidiary company cannot pay dividend to its shareholders, including the Company, if the subsidiary company cannot comply with the conditions as stipulated within the loan agreement, such as the maintenance of D/E ratio, DSCR, and shareholding proportion of the Company in the subsidiary company, etc. Accordingly, the subsidiary company has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

## **IMPACT TO FUTURE OPERATIONS**

**Coal Business:** Global coal prices have continued to rise since the end of past year 2016. As a result, the net profit during the first 6-month period of 2017, the coal business, which is the Company's core business, grew higher than the net profit of year 2016 or an increase of 80.45 percent, due to the increase in coal selling price of 30 percent. It is expected that the operating results of the coal business during year 2017 will improve much better than the past year with positive global coal price trend.

**Ethanol Business:** It is expected that the operating results of the ethanol business in 2017, which is the Company's secondary core business, should still be satisfactory as molasses, cassava and ground rice are used as the main raw materials instead of just molasses as in the past year 2016, which has provided higher production yield and lower production cost.

Regardless, both the Company and the subsidiary companies are expected to be more profitable than in the past year 2016 as the trend on global coal price continues to be positive. Nonetheless, the Company shall endeavor to manage and resolve all the problems with prudence and caution to ensure good operating results in year 2017 and proceed with regular dividend payments to shareholders according to the established policy.

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