



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE OPERATING RESULTS OF
THE 3RD QUARTER 2015
AND THE FIRST 9-MONTH PERIOD OF 2015**

LANNA RESOURCES PUBLIC COMPANY LIMITED

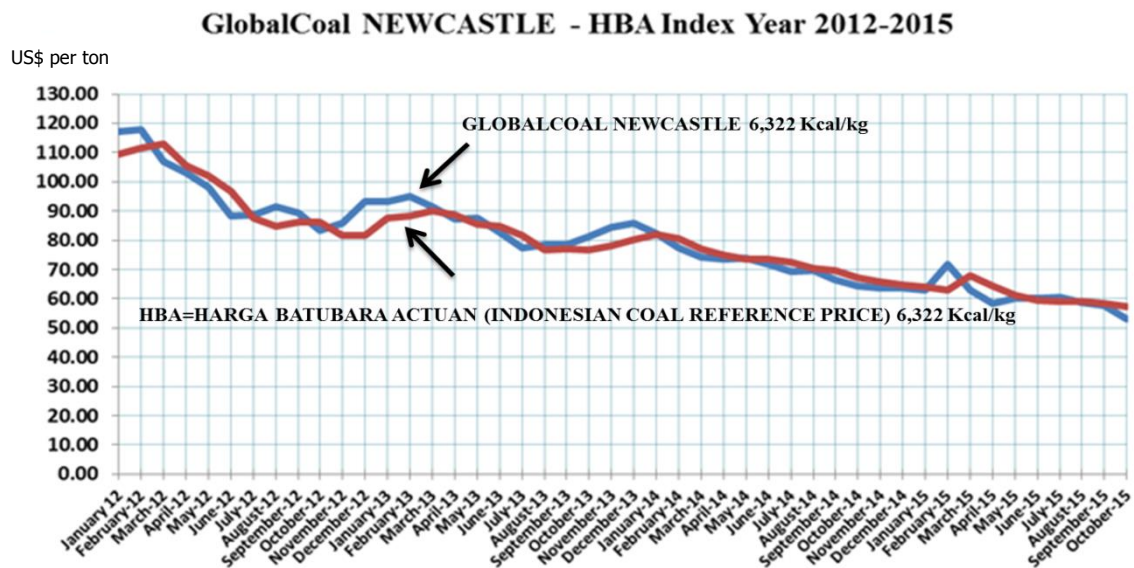
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3rd Quarter 2015
and the First 9-Month Period of 2015)

OVERALL OPERATING RESULTS

The Company's revenue in the 3rd quarter 2015 and the first 9-month period of 2015 were Baht 2,148.97 million and Baht 7,641.71 million, which decreased from the same period last year by 19.70 and 19.41 percent. The net profit in the 3rd quarter 2015 and the first 9-month period of 2015 were Baht 32.50 million and 224 million, which decreased from the same period last year by 37.73 and 38.48 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 and E20.

COAL BUSINESS: The global coal prices have been continuously decreasing. The Company still employs mining cost reduction strategy and carefully selects the product mix with high price and profit.



In summary, the revenue of the coal business in the 3rd quarter 2015 and the first 9-month period of 2015 were Baht 1,503.36 million and Baht 5,616.55 million, which decreased from the same period last year by 23.93 and 25.45 percent due to the decrease in coal sales volume by 26.94 and 21.96 percent. The resulting net profit derived from shareholding proportion in the 3rd quarter 2015 and the first 9-month period of 2015 were Baht 1.54 million and Baht 74.44 million, which decreased from the same period last year by 91.29 and 56.19 percent, respectively. Regardless, while the operating results of the coal business declines, it remains continuously profitable.

ETHANOL BUSINESS: The average ethanol selling price in the 3rd quarter 2015 and the first 9-month period of 2015 slightly decreased from the same period last year by 2.76 and 1.18 percent, respectively. However, the ethanol demand increased from 3.24 million liters per day at the end of 2014 to 3.54 million liters per day in the 3rd quarter 2015, or 9.26 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 3rd quarter 2015 were Baht 638.67 million, which decreased from the same period last year by 7.17 percent. The resulting net profit derived from shareholding proportion of the Company in the 3rd quarter year 2015 were Baht 19.62 million, which increased from the same period last year by 10.67 percent. The revenue of the first 9-month period of 2015 was Baht 2,001.13 million, which increased from the same period last year by 4.22 percent. However, the resulting net profit derived from shareholding proportion of the Company in this period was Baht 108.28 million, which decreased from the same period last year by 28.26 percent. While the net profit of the ethanol business in the first 9-month period of 2015 increased by 10.36 percent, 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)		9-Month Period (Jan – September)		Increase (Decrease)) (%)
	2/2015	3/2015	3/2014	YoY (%)	QoQ (%)	2015	2014	
Revenue from Coal Sales	1,917.44	1,503.36	1,976.38	(23.93)	(21.60)	5,616.55	7,533.98	(25.45)
Revenue from Ethanol Sales	668.69	638.67	688.00	(7.17)	(4.49)	2,001.13	1,920.03	4.22
Other Revenue	8.40	6.94	11.71	(40.73)	(17.38)	24.03	27.68	(13.19)
Total Revenues	2,594.53	2,148.97	2,676.09	(19.70)	(17.17)	7,641.71	9,481.69	(19.41)

REVENUE

(1) The Company's revenue in the 3rd quarter 2015 totaled Baht 2,148.97 million, which decreased from the same period last year by Baht 527.12 million or 19.70 percent due to the following reasons:

(1.1) Revenue from coal business in the 3rd quarter 2015 was Baht 1,503.36 million, which decreased from the same period last year by Baht 473.02 million or 23.93 percent. This was due to the decrease in coal sales volume of 26.94 percent attributed to the downtrend of coal market. The coal selling price slightly increased by 4.11 percent due to the weakened Thai Baht.

(1.2) Revenue from ethanol business in the 3rd quarter 2015 was Baht 638.67 million, which decreased from the same period last year by Baht 49.33 million or 7.17 percent. This was due to the decrease in ethanol sales volume and price by 4.35 and 2.76 percent, respectively, according to the downtrend of oil market.

(1.3) Other revenue in the 3rd quarter 2015 was Baht 6.94 million, which decreased from the same period last year by Baht 4.77 million or 40.73 percent due to a decrease in interest income.

(2) The Company's revenue in the first 9-month period of 2015 totaled Baht 7,641.71 million, which decreased from the same period last year by Baht 1,839.98 million or 19.41 percent due to the following reasons:

(2.1) Revenue from coal business in the first 9-month period of 2015 was Baht 5,616.55 million, which decreased from the same period last year by Baht 1,917.43 million or 25.45 percent. This was due to decreases in coal sales volume and selling price of 21.96 percent and 4.47 percent, respectively, in line with downtrend of the global coal market.

(2.2) Revenue from ethanol business in the first 9-month period of 2015 was Baht 2,001.13 million, which increased from the same period last year by Baht 81.10 million or 4.22 percent. This was due to the increase in ethanol sales volume of 5.53 percent, but the ethanol selling price slightly decreased by 1.18 according to the downtrend of oil market.

(2.3) Other revenue in the first 9-month period of 2015 was Baht 24.03 million, which decreased from the same period last year by Baht 3.65 million or 13.19 percent due to a decrease in interest income.

Expenses (Unit: Million Baht)	Quarters			Increase (Decrease)		9-Month Period (Jan – September)		Increase (Decrease) (%)
	2/2015	3/2015	3/2014	YoY (%)	QoQ (%)	2015	2014	
Coal Business								
Cost of sales	1,274.47	1,039.63	1,386.25	(25.00)	(18.43)	3,818.31	5,003.21	(23.68)
Selling and administrative expenses	559.68	453.01	567.53	(20.18)	(19.06)	1,573.15	2,043.42	(23.01)
Financial cost	1.56	2.60	0.43	504.65	66.67	9.11	3.77	141.64
Corporate income tax	49.44	28.03	7.83	257.98	(43.31)	141.11	186.79	(24.46)
Ethanol Business								
Cost of sales	578.79	575.62	626.16	(8.07)	(0.55)	1,697.15	1,643.46	3.27
Selling and administrative expenses	14.76	11.88	9.64	23.24	(19.51)	36.48	33.25	9.71
Financial cost	13.29	10.60	12.45	(14.86)	(20.24)	38.92	43.21	(9.93)
Corporate income tax	3.68	1.69	3.67	(53.95)	(54.08)	14.83	8.34	77.82

COAL BUSINESS EXPENSES

(1) Coal business expenses in the 3rd quarter 2015 totaled Baht 1,523.27 million, which decreased from the same period last year by Baht 438.77 million or 22.36 percent, due to the following reasons:

(1.1) Cost of coal sales in the in the 3rd quarter 2015 decreased from the same period last year by Baht 346.62 million or 25 percent. This was due to a decrease in coal sales volume of 26.94 percent, despite a slight increase in the average cost of coal sales per ton by 2.64 percent.

(1.2) Selling and administrative expenses in the 3rd quarter 2015 decreased from the same period last year by Baht 114.52 million or 20.18 percent according to the decrease in coal sales volume.

(1.3) Financial cost in the 3rd quarter 2015 increased from the same period last year by Baht 2.17 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 3rd quarter 2015 increased from the same period last year by Baht 20.20 million or 257.98 percent.

(2) Coal business expenses in the first 9-month period of 2015 totaled Baht 5,541.68 million, which decreased from the same period last year by Baht 1,695.51 million or 23.43 percent, due to the following reasons:

(2.1) Cost of coal sales in the first 9-month period of 2015 decreased from the same period last year by Baht 1,184.90 million or 23.68 percent. This was due to the decrease in coal sales volume and average cost of coal sales per ton of 21.96 percent and 2.21 percent, respectively.

(2.2) Selling and administrative expenses in the first 9-month period of 2015 decreased from the same period last year by Baht 470.27 million or 23.01 percent according to the decrease in coal sales volume.

(2.3) Financial cost in the first 9-month period of 2015 increased from the same period last year by Baht 5.34 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 9-month period of 2015 decreased from the same period last year by Baht 45.68 million or 24.46 percent in line with the decrease in profit.

ETHANOL BUSINESS EXPENSES

(1) Ethanol business expenses in the 3rd quarter 2015 totaled Baht 599.79 million, which decreased from the same period last year by Baht 52.13 million or 8 percent, due to the following reasons:

(1.1) Cost of ethanol sales in the 3rd quarter 2015 decreased from the same period last year by Baht 50.54 million or 8.07 percent. This was due to the decrease in ethanol sales volume of 4.35 percent. Even though the molasses (raw material) price, which is a major cost, slightly increased from the same period last year by 1.33 percent, the average cost of ethanol sales decreased by 3.89 percent.

(1.2) Selling and administrative expenses in the 3rd quarter 2015 increased from the same period last year by Baht 2.24 million or 23.24 percent.

(1.3) Financial expenses in 3rd quarter 2015 decreased from the same period last year by Baht 1.85 million or 14.86 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 3rd 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 1.69 million in 3rd quarter 2015, which decreased from the same period last year by Baht 53.95 million.

(2) Ethanol business expenses in the first 9-month period of 2015 totaled Baht 1,787.38 million, which increased from the same period last year by Baht 52.63 million or 3.05 percent, due to the following reasons:

(2.1) Cost of ethanol sales in the first 9-month period of 2015 increased from the same period last year by Baht 53.69 million or 3.27 percent. This was due to the increase in ethanol sales volume of 5.53 percent. Even though the molasses (raw material) price, which is a major cost, slightly increased from the same period last year by 2.03 percent, the average cost of ethanol sales decreased by 2.15 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2015 increased from the same period last year by Baht 3.23 million or 9.71 percent in line with the increase in ethanol sales volume.

(2.3) Financial cost in the first 9-month period of 2015 decreased from the same period last year by Baht 4.29 million or 9.93 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 9-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 14.83 million in the first 9-month period of 2015, which increased from the same period last year by Baht 77.82 million in line with the increased profit.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
3rd Quarter (July - September)						
Year 2015						
Revenues from sales	1,503.36	100.00	638.67	100.00	2,142.03	100.00
Less Cost of sales	1,039.63	69.15	575.62	90.13	1,615.25	75.41
Gross Profit	463.73	30.85	63.05	9.87	526.78	24.59
Year 2014						
Revenues from sales	1,976.38	100.00	688.00	100.00	2,664.38	100.00
Less Cost of sales	1,386.25	70.14	626.16	91.01	2,012.41	75.53
Gross Profit	590.13	29.86	61.84	8.99	651.97	24.47
9-Month Period (January – September)						
Year 2015						
Revenues from sales	5,616.55	100.00	2,001.13	100.00	7,617.68	100.00
Less Cost of sales	3,818.31	67.98	1,697.15	84.81	5,515.46	72.40
Gross Profit	1,798.24	32.02	303.98	15.19	2,102.22	27.60
Year 2014						
Revenues from sales	7,533.98	100.00	1,920.03	100.00	9,454.01	100.00
Less Cost of sales	5,003.21	66.41	1,643.46	85.60	6,646.67	70.31
Gross Profit	2,530.77	33.59	276.57	14.40	2,807.34	29.69

GROSS PROFIT

(1) The Company's gross profit in the 3rd quarter 2015 was Baht 526.78 million, or 24.59 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 651.97 million or 24.47 percent of sales revenue, the gross profit margin increased due to the following reasons:

(1.1) Gross profit margin from coal business in the 3rd quarter 2015 was 30.85 percent of the sales revenue, which increased from the same period last year with gross profit margin of 29.86 percent of the sales revenue. This was due to the increase of coal selling price of 4.11 percent attributed to the weakened Thai Baht, while the cost of coal sales slightly increased by 2.64 percent.

(1.2) Gross profit margin from the ethanol business in the 3rd quarter 2015 was 9.87 percent of the sales revenue, which increased from the same period last year with gross profit margin of 8.99 percent of the sales revenue. This was due to the decrease of ethanol selling price of 2.76 percent, while the average cost of ethanol sales decreased by 3.89 percent.

(2) The Company's gross profit in the first 9-month period of 2015 was Baht 2,102.22 million, or 27.60 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 2,807.34 million or 29.69 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 9-month period of 2015 was 32.02 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 33.59 percent of the sales revenue. This was due to the decrease of coal selling price of 4.47 percent, while the cost of coal sales slightly decreased by 2.21 percent in line with the downtrend of the global coal market.

(2.2) Gross profit margin from the ethanol business in the first 9-month period of 2015 was 15.19 percent of the sales revenue, which slightly increased from the same period last year with gross profit margin of 14.40 percent of the sales revenue. This was due to the decrease in the ethanol selling price of 1.18 percent, while the average cost of ethanol sales decreased by 2.15 percent.

Net Profit (Unit: Million Baht)	Quarters			Increase (Decrease)		9-Month Period (Jan – September)		Increase (Decrease) (%)
	2/2015	3/2015	3/2014	YoY (%)	QoQ (%)	2015	2014	
Profit from Coal Business	26.48	1.54	17.69	(91.29)	(94.18)	74.44	169.91	(56.19)
Profit from Ethanol Business	29.40	19.62	17.73	10.67	(33.27)	108.28	150.94	(28.26)
Share of income from investment in associate company and other revenue	15.04	11.34	16.77	(32.38)	(24.60)	41.28	43.26	(4.58)
Net Profit	70.92	32.50	52.19	(37.73)	(57.17)	224.00	364.11	(38.48)
Net Earnings per Share -Baht per Share	0.14	0.06	0.10	(37.73)	(57.17)	0.43	0.69	(38.48)

NET PROFIT

(1) The Company's net profit in the 3rd quarter 2015 was Baht 32.50 million, or net earnings of Baht 0.06 per share. When compared with the same period last year, the net profit decreased by 37.73 percent due to the following reasons:

(1.1) Net profit from coal business derived from shareholding proportion of the Company in the 3rd quarter 2015 was Baht 1.54 million or 4.74 percent of the total net profit, which decreased from the same period last year by Baht 16.15 million or 91.29 percent. This was due to the decrease in coal sales volume of 26.94 percent in line with the downtrend of coal market, but the coal selling price slightly increased by 4.11 percent due to the weakened Thai Baht.

(1.2) Net profit from ethanol business derived from shareholding proportion of the Company in the 3rd quarter 2015 was Baht 19.62 million or 60.37 percent of the total net profit, which increased from the same period last year by Baht 1.89 million or 10.67 percent. This was due to the decrease in the average cost of ethanol sales of 3.89 percent.

(1.3) Other revenues and share of income from investment in the associate company in the 3rd quarter 2015 was Baht 11.34 million or 34.89 percent of the total net profit, which decreased from the same period last year by Baht 5.43 million or 32.38 percent due to the decrease in interest income.

(2) The Company's net profit in the first 9-month period of 2015 was Baht 224 million, or net earnings of Baht 0.43 per share. When compared with the same period last year, the net profit decreased by 38.48 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 9-month period of 2015 was Baht 74.44 million or 33.23 percent of the total net profit, which decreased from the same period last year by Baht 95.47 million or 56.19 percent. This was due to the decrease in coal sales volume and selling price of 21.96 and 4.47 percent, respectively, in line with the downtrend of the global coal market.

(2.2) Net profit from ethanol business derived from shareholding proportion of the Company in the first 9-month period of 2015 was Baht 108.28 million or 48.34 percent of the total net profit, which decreased from the same period last year by Baht 42.66 million or 28.26 percent. While the net profit of the ethanol business increased by 10.36 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 9-month period of 2015 was Baht 41.28 million or 18.43 percent of the total net profit, which decreased from the same period last year by Baht 1.98 million or 4.58 percent due to the decrease in interest income.

EARNINGS EFFICIENCY

The abovementioned decrease in the net profit in the first 9-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 9-month period of 2015 was Baht 1,012.22 million, which decreased from the same period last year by 25.40 percent.

(2) The Company's EBITDA margin in the first 9-month period of 2015 was at 13.25 percent, which decreased from the same period last year of 14.31 percent by 7.74 percent.

(3) The Company's net profit margin in the first 9-month period of 2015 was at 4.32 percent, which decreased from the same period last year of 5.61 percent by 23.03 percent.

(4) The Company's return on equity in the first 9-month period of 2015 was at 5.25 percent, which decreased from the same period last year of 8.86 percent by 40.76 percent.

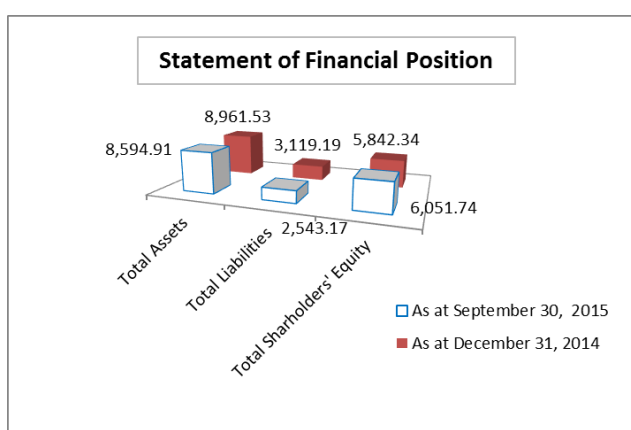
(5) The Company's return on total assets and return on fixed assets in the first 9-month period of 2015 were at 3.76 percent and 23.75 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 6.09 percent and 33.25 percent, they decreased by 38.25 percent and 28.57 percent, respectively.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at September 30, 2015	As at December 31, 2014	Million Baht	%
Total Assets	8,594.91	8,961.53	(366.62)	(4.09)
Total Liabilities	2,543.17	3,119.19	(576.02)	(18.47)
Total Shareholders' Equity	6,051.74	5,842.34	209.40	3.58
Book Value-Baht per Share	8.28	7.97	0.31	3.89
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at September 30, 2015 decreased from yearend 2014 by Baht 366.62 million or a decrease of 4.09 percent, consisting of:

(1) Current assets decreased from yearend 2014 by Baht 435.38 million or a decrease of 9.53 percent, due to (A) cash and cash equivalent increased from yearend 2014 by Baht 308.65 million or an increase of 25.42 percent; (B) trade accounts receivable and other accounts receivable increased from yearend 2014 by Baht 19.33 million or an increase of 2.67 percent; (C) inventories increased from yearend 2014 by Baht 316.39 million or an increase of 56.07 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, etc., decreased from yearend 2014 by Baht 1,079.75 million or 52.26 percent.



(2) Non-current assets increased from yearend 2014 by Baht 68.76 million or an increase of 1.57 percent, due to an increase in deferred expenses.

LIABILITIES: The Company's total liabilities as at September 30, 2015 decreased from yearend 2014 by Baht 576.02 million or a decrease of 18.47 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from yearend 2014 by Baht 17.79 million or a decrease of 3.84 percent

(2) Short term and long term loans decreased from yearend 2014 by Baht 502.52 million or 27.08 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 121.92 million or 23.93 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 66.21 million or 22.72 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at September 30, 2015 increased from yearend 2014 by Baht 209.40 million or 3.58 percent, resulting in an increase of the share's book value from Baht 7.97 per share to Baht 8.28 per share. This was due to an increase in net profit of Baht 224 million, dividend payment of Baht 210 million, a net increase in translation adjustment in financial statement and other items of Baht 151.09 million, and an increase in minority shareholders of Baht 44.31 million.

Cash Flows (Unit: Million Baht)	9-Month Period (January – September)	
	2015	2014
Cash Flows from (used in) Operating Activities	1,610.91	1,203.33
Cash Flows from (used in) Investing Activities	(496.94)	(1,045.57)
Cash Flows from (used in) Financing Activities	(771.23)	(208.44)
Translation Adjustments in Financial Statements	(118.24)	9.27
Net Increase (Decrease) in Cash	224.50	(41.41)
Cash at the beginning of the period	446.92	822.02
Cash at the end of the period	671.42	780.61

CASH FLOWS

(1) The Company's net cash from operating activities in the first 9-month period of 2015 was Baht 1,610.91 million, consisting of: (A) income before corporate income tax and interest expense of Baht 485.85 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets of Baht 732.13 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) a decrease in operating assets of Baht 509.37 million due to a decrease in other current assets; (D) a decrease in operating liabilities of Baht 154.47 million due to a decrease in current liabilities, and (E) an increase in interest income of Baht 20.04 million, but with a decrease in interest expense and taxes of Baht 17.99 million.

(2) The Company's net cash used in investment activities in the first 9-month period of 2015 was Baht 496.94 million, consisting of: (A) an increase in properties, buildings and equipment of Baht 45.86 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 421.17 million; and (C) short-term cash investment and other items which increased by a total of Baht 29.91 million.

(3) The Company's net cash used in financing activities in the first 9-month period of 2015 was Baht 771.23 million, including (A) a decrease in loan of Baht 503.53 million, (B) dividend payment of Baht 362.49 million, and (C) an increase in minority shareholders' equity of Baht 94.79 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at September 30, 2015 were 8.65 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 3rd quarter 2015 and therefore, there was no provision for doubtful debt in the 3rd quarter 2015.

(2) Inventory as at September 30, 2015 was 10.25 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 3rd quarter 2015.

(3) Goodwill from investment in the subsidiary company in Indonesia as at September 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 3rd quarter 2015.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at September 30, 2015 was as low as 0.42 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 3rd quarter 2015 is as high as 21.07 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 September 30, 2015 were at 2.30 times and 1.25 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 3rd quarter 2015 was 40 days, an increase from the same period last year of 11 days. The average debt collection period was 25 days, an increase from the same period last year of 3 days. The average inventory turnover was 35 days, an increase from the same period last year of 4 days. However, the average debt repayment period was 20 days or a decrease from the same period last year of 4 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. 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 and is currently studying coal fired power plant projects in Thailand and Indonesia. The Company and its subsidiary companies have capability to invest in such projects having its own coal mine concessions. Not only the production and 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.
