

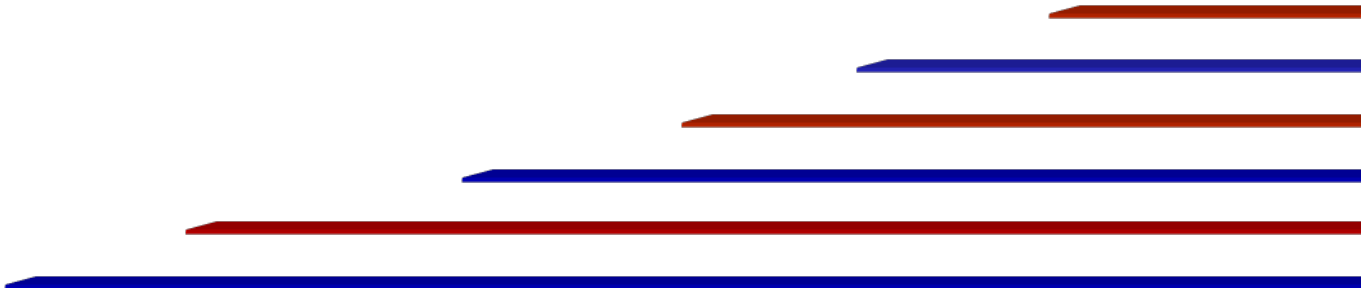


LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE CONSOLIDATED FINANCIAL STATEMENTS

OF THE 1ST QUARTER 2018



LANNA RESOURCES PUBLIC COMPANY LIMITED

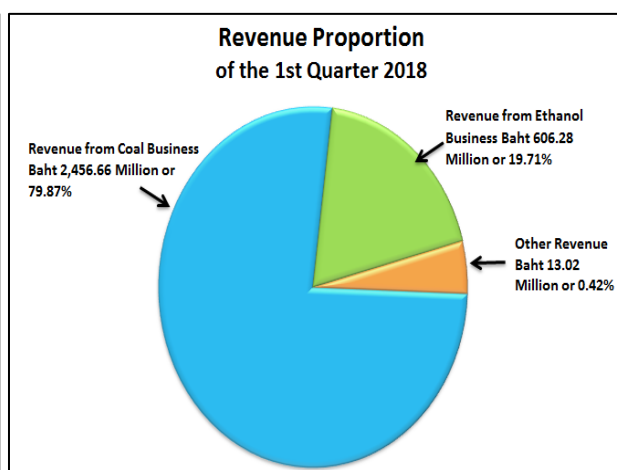
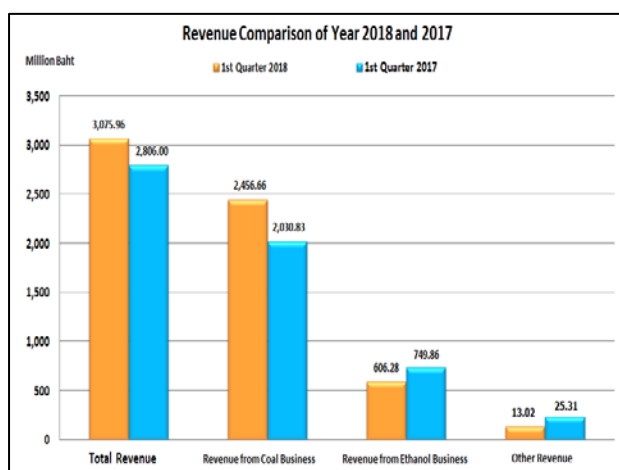
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 1ST Quarter 2018)

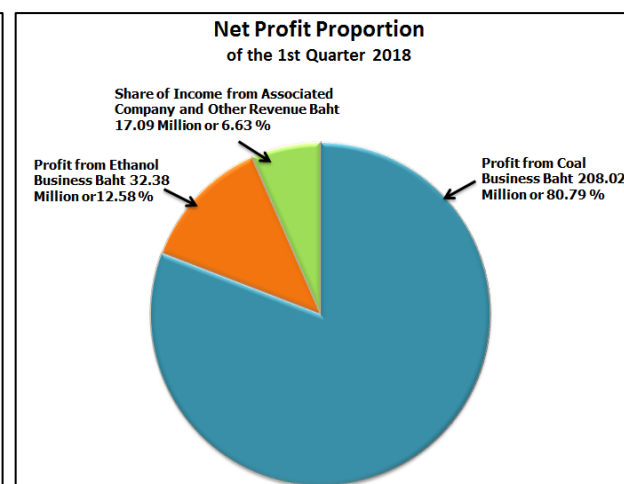
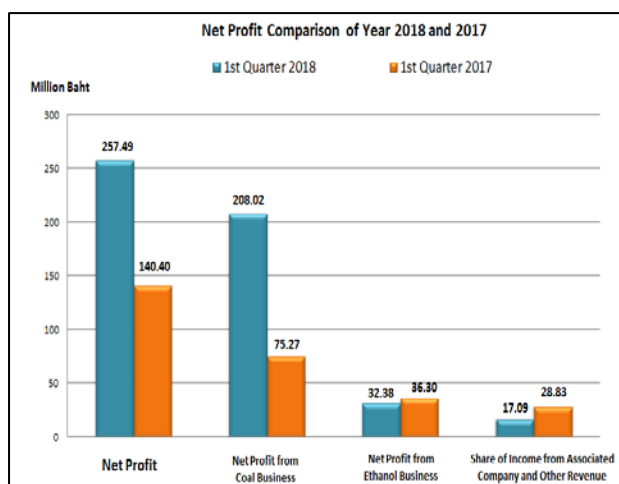
OVERALL OPERATING RESULTS

The overall operating results during the 1st quarter 2018 of the Company and subsidiary companies recorded an excellent growth in terms of revenue and net profit in line with an increase in coal sales volume and coal prices remaining at high level, the profitability is considered quite satisfactory.

The Company and subsidiary companies had total revenue in the 1st quarter 2018 of Baht 3,075.96 million, which increased from the same period last year by Baht 269.96 million or 9.62 percent. The revenue proportion from coal business, ethanol business and other revenue accounted for 79.87, 19.71 and 0.42 percent, respectively.



The Company and subsidiary companies had total net profit during the 1st quarter 2018 of Baht 257.49 million or net earnings per share of Baht 0.49, which increased from the same period last year by Baht 117.09 million or 83.40 percent. The net profit proportion from coal business, ethanol business, and share of income from the associated company and other revenue accounted for 80.79, 12.58 and 6.63 percent, respectively, with the net profit margin of 14.25 percent, an increase from the same period last year of 52.48 percent; the EBITDA margin of 25.05 percent, an increase from the same period last year of 17.14 percent; and the return on equity of 5.92 percent, an increase from the same period last year of 75.35 percent.



The overall financial position and liquidity of the Company and subsidiary companies as at March 31, 2018 were considered satisfactory. The current ratio was at 1.59 times but the total debt to total assets ratio was only 36.92 percent with debt to equity ratio of only 58.54 percent.

COAL BUSINESS: The revenue from coal business, which is the core business, in the 1st quarter 2018 totaled Baht 2,456.66 million, which increased from the same period last year by Baht 425.83 million or 20.97 percent, due to the increase in coal sales volume of 22.89 percent but the average coal selling price slightly decreased by 1.57 percent. The net profit derived from shareholding proportion of the Company in the 1st quarter 2018 was Baht 208.02 million, increased from the same period last year by Baht 132.75 million or 176.37 percent, which is considered significantly higher profitability.

ETHANOL BUSINESS: The total revenue in the 1st quarter 2018 from ethanol business, the secondary core business, was Baht 606.28 million, which decreased from the same period last year by Baht 143.58 million or 19.15 percent. This was due to the decrease in ethanol sales volume and ethanol selling price from the same period last year of 16.94 and 2.68 percent, respectively. The net profit derived from shareholding proportion of the Company in the 1st quarter 2018 was Baht 32.38 million, which decreased from the same period last year by Baht 3.92 million or 10.80 percent.

OPERATING RESULTS ANALYSIS

Revenue	1 st Quarter 2018		1 st Quarter 2017		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenue from Coal Sales	2,456.66	79.87	2,030.83	72.37	425.83	20.97
Revenue from Ethanol Sales	606.28	19.71	749.86	26.72	(143.58)	(19.15)
Other Revenue	13.02	0.42	25.31	0.91	(12.29)	(48.55)
Total Revenue	3,075.96	100.00	2,806.00	100.00	269.96	9.62

REVENUE: The revenue of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 3,075.96 million, which increased from the same period last year by Baht 269.96 million or 9.62 percent due to the following reasons:

(1) Revenue from coal business totaled Baht 2,456.66 million, which increased from the same period last year by Baht 425.83 million or 20.97 percent. This was due to the increase in coal sales volume as described above.

(2) Revenue from ethanol business totaled Baht 606.28 million, which decreased from the same period last year by Baht 143.58 million or 19.15 percent. This was due the decrease in ethanol sales volume and ethanol selling price as described above; and

(3) Other revenue totaled Baht 13.02 million, which decreased from the same period last year by Baht 12.29 million or 48.55 percent. This was due to the decrease in foreign exchange gain and miscellaneous items of 13.49 million.

Expenses	1 st Quarter 2018		1 st Quarter 2017		Increase (Decrease)	
	Million Baht	% Sales	Million Baht	% Sales	Million Baht	% Sales
Coal Business						
Cost of Sales	1,361.69	55.43	1,264.37	62.26	97.32	7.70
Selling and Administrative Expenses	556.65	22.66	484.02	23.83	72.63	15.01
Financial Expense	6.18	0.25	8.05	0.40	(1.87)	(23.23)
Corporate Income Tax	174.80	7.12	112.01	5.52	62.79	56.06
Ethanol Business						
Cost of Sales	509.11	83.97	648.10	86.43	(138.99)	(21.45)
Selling and Administrative Expenses	23.71	3.91	13.77	1.84	9.94	72.19
Financial Expense	8.48	1.40	9.56	1.27	(1.08)	(11.30)
Corporate Income Tax	1.00	0.16	6.93	0.92	(5.93)	(85.57)

COAL BUSINESS EXPENSES: The coal business expenses of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 2,099.32 million, which increased from the same period last year by Baht 230.87 million or 12.36 percent, due to the following reasons:

(1) Cost of coal sales increased from the same period last year by Baht 97.32 million or 7.70 percent, due to the increase in coal sales volume by 22.89 percent but the average cost of coal sales decreased by 12.37 percent.

(2) Selling and administrative expenses increased from the same period last year by Baht 72.63 million or 15.01 percent according to the increase in coal sales volume.

(3) Financial expense decreased from the same period last year by Baht 1.87 million or 23.23 percent due to the decrease in interest expense according to the lease agreement on coal transport jetty investment of the subsidiary company; and

(4) Corporate income tax increased from the same period last year by Baht 62.79 million or 56.06 percent according to the increase in profit.

ETHANOL BUSINESS EXPENSES: Ethanol business expenses of the subsidiary company in the 1st quarter 2018 totaled Baht 542.30 million, which decreased from the same period last year by Baht 136.06 million or 20.06 percent, due to the following reasons:

(1) Cost of ethanol sales decreased from the same period last year by 138.99 million or 21.45 percent. This was due to the decrease in ethanol sales volume and cost of ethanol sales of 16.94 and 5.42 percent, respectively, according to the decrease in price of the raw material, molasses, of 8.57 percent, which is a major cost.

(2) Selling and administrative expenses increased from the same period last year by Baht 9.94 million or 72.19 percent due to the increase in salary and freight cost, including additional compensation payment to the affected villagers from flood incident that caused damage and collapse of wastewater treatment pond in the 4th quarter 2017.

(3) Financial expense decreased from the same period last year by Baht 1.08 million or 11.30 percent due to loan repayment according to terms and repayment schedule in the loan agreement; and

(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 is subject to corporate income tax of Baht 1 million, which decreased from the same period last year by Baht 5.93 million or 85.57 percent.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
1st Quarter 2018						
Revenues from Sales	2,456.66	100.00	606.28	100.00	3,062.94	100.00
Less Cost of Sales	1,361.69	55.43	509.11	83.97	1,870.80	61.08
Gross Profit	1,094.97	44.57	97.17	16.03	1,192.14	38.92
1st Quarter 2017						
Revenues from Sales	2,030.83	100.00	749.86	100.00	2,780.69	100.00
Less Cost of Sales	1,264.37	62.26	648.10	86.43	1,912.47	68.78
Gross Profit	766.46	37.74	101.76	13.57	868.22	31.22

GROSS PROFIT: The gross profit of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 1,192.14 million, or 38.92 percent of the sales revenue, which increased from the same period last year with the gross profit of Baht 868.22 million or 31.22 percent of the sales revenue, due to the following reasons:

(1) Gross profit from coal business was 44.57 percent of the sales revenue, which increased from the same period last year with gross profit of 37.74 percent of the sales revenue. This was due to the slight decrease in average coal selling price of 1.57 percent, while the cost of coal sales decreased by 12.37 percent; and

(2) Gross profit from ethanol business was 16.03 percent of the sales revenue, which increased from the same period last year with gross profit of 13.57 percent of the sales revenue. This was due to the slight decrease in average ethanol selling price of 2.68 percent, while the cost of ethanol sales decreased by 5.42 percent.

Net Profit	1 st Quarter 2018		1 st Quarter 2017		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	208.02	80.79	75.27	53.61	132.75	176.37
Profit form Ethanol Business	32.38	12.58	36.30	25.85	(3.92)	(10.80)
Other Revenue and Share of Income from Associated Company	17.09	6.63	28.83	20.54	(11.74)	(40.71)
Net Profit	257.49	100.00	140.40	100.00	117.09	83.40
Net Earnings per share (Baht per share)	0.49		0.27		0.22	83.40

NET PROFIT: The net profit of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 257.49 million, or net earnings per share of Baht 0.49, which increased from the same period last year by Baht 117.09 million or net earnings per share of Baht 0.22 or 83.40 percent, due to the following reasons:

(1) Net profit from coal business derived from shareholding proportion of the Company was Baht 208.02 million or 80.79 percent of the total net profit, which increased from the same period last year by Baht 132.75 million or 176.37 percent. This was due to the increase in coal sales volume and coal prices remaining at high level as described above.

(2) Net profit from ethanol business derived from shareholding proportion of the Company was Baht 32.38 million or 12.58 percent of the total net profit, which decreased from the same period last year by Baht 3.92 million or 10.80 percent due to the decrease in volume and average ethanol selling price as described above; and

(3) Share of income from associated company and other revenue were Baht 17.09 million or 6.63 percent of the total net profit, which decreased from the same period last year by Baht 11.74 million or 40.71 percent due to the decrease in foreign exchange gain and miscellaneous items as described above.

EARNINGS EFFICIENCY

(1) EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) of the Company and subsidiary companies in the 1st quarter 2018 was Baht 770.59 million, which increased from the same period last year by Baht 169.51 million or 28.20 percent and EBITDA margin was at 25.05 percent, which increased from the same period last year by 17.14 percent.

(2) Net profit margin of the Company and subsidiary companies in the 1st quarter 2018 was at 14.25 percent, which increased from the same period last year by 52.48 percent.

(3) Return on equity of the Company and subsidiary companies in the 1st quarter 2018 was at 5.92 percent, which increased from the same period last year by 75.35 percent.

(4) Return on total assets of the Company and subsidiary companies in the 1st quarter 2018 was at 4.82 percent, which increased from the same period last year by 57.86 percent. The return on fixed assets in the 1st quarter 2018 was at 16.13 percent, which increased from the same period last year by 26.30 percent.

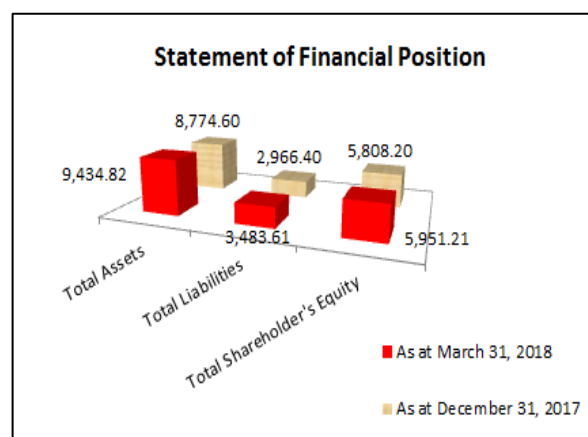
STATEMENTS OF FINANCIAL POSITION

Description	Unit: Million Baht		Increase (Decrease)	
	As at March 31, 2018	As at December 31, 2017 (Restated)	Million Baht	%
Total Assets	9,434.82	8,774.60	660.22	7.52
Total Liabilities	3,483.61	2,966.40	517.21	17.44
Total Shareholders' Equity	5,951.21	5,808.20	143.01	2.46
Book Value-Baht per Share	8.47	8.10	0.37	4.57
Remark: Registered par value of Baht 1 per share				

ASSETS: The total assets of the Company and subsidiary companies as at March 31, 2018 increased from the same period last year by Baht 660.22 million or 7.52 percent, due to (1) current assets increased by Baht 374.93 million or 8.51 percent, consisting of: (A) cash and cash equivalent decreased by Baht 154.78 million or 7.89 percent; (B) trade accounts receivable and other accounts receivable decreased by Baht 133.24 million or 10.51 percent; (C) inventories increased by Baht 453.14 million or 115.37 percent; and (D) other current assets most of which were prepaid corporate income tax, prepaid expenses, etc., increased by Baht 209.81 million or 26.88 percent; and (2) non-current assets, most of which were properties, buildings and equipment and the deferred transferred service fees according to contract increased by Baht 285.29 million or 6.53 percent.

LIABILITIES: The total liabilities of the Company and subsidiary companies as at March 31, 2018 increased from the same period last year by Baht 517.21 million or 17.44 percent, due to (1) trade accounts payable and other accounts payable decreased by Baht 5.34 million or 0.96 percent (2) short-term loan of the subsidiary company as working capital for the procurement of raw material for ethanol production increased by Baht 466.64 million or 45.89 percent (3) accrued expenses, most of which were overburden removal expenses and freight cost, etc., increased by Baht 160.20 million or 20.05 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, deferred tax, etc., decreased by Baht 104.29 million or 17.57 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company and subsidiary companies as at March 31, 2018 increased from the same period last year by Baht 143.01 million or 2.46 percent, resulting in an increase of the share's book value from Baht 8.10 per share to Baht 8.47 per share, an increase of Baht 0.37 per share or 4.57 percent. This was due to: (1) an increase in retained earnings of Baht 257.49 million or 8.60 percent due to an increase in net profit (2) a net decrease in translation adjustment in financial of Baht 62.89 million or 123.36 percent; and (3) a decrease in minority shareholders' equity of Baht 51.59 million or 3.32 percent.



CASH FLOWS

Description	Unit: Million Baht	
	1 st Quarter 2018	1 st Quarter 2017
Cash Flows from (used in) Operating Activities	(113.13)	675.86
Cash Flows from (used in) Investing Activities	(448.09)	(247.12)
Cash Flows from (used in) Financing Activities	393.67	(255.82)
Increase in Translation Adjustments in Financial Statements	(15.52)	13.76
Net Increase (Decrease) in Cash	(183.07)	186.68
Cash at the beginning of the period	1,128.07	698.17
Cash at the end of the period	945.00	884.85

(1) The net cash from operating activities of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 113.13 million, consisting of: (A) income before corporate income tax and interest expense of Baht 614.20 million; (B) transactions that did not affect the cash such as depreciation and amortization of assets, most of which were mostly transactions concerning coal mining operations of the subsidiary companies in Indonesia of Baht 154.93 million; (C) an increase in operating assets of Baht 556.47 million; (D) a decrease in operating liabilities of Baht 62.04 million; and (E) an increase in interest received of Baht 7.21 million and interest expense and taxes increased by Baht 270.96 million.

(2) The net cash used in investing activities of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 448.09 million, consisting of: (A) properties, buildings and equipment increased by Baht 117.10 million, most of which were the coal transport jetty construction of the Company and wastewater treatment system construction of the subsidiary company; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 222.10 million; and (C) short-term capital investment and other items increased by Baht 108.89 million.

(3) The net cash used in financing activities of the Company and subsidiary companies in the 1st quarter 2018 totaled Baht 393.67 million, consisting of: (A) an increase in loan of Baht 465.79 million, (B) cash payment under investment lease agreement of Baht 33.67 million and (C) a decrease in minority shareholders' equity of Baht 38.45 million.

ASSET MANAGEMENT CAPABILITY

(1) The trade accounts receivable and other accounts receivable of the Company and subsidiary companies as at March 31, 2018 were 12.03 percent of total assets. The provisions of doubtful debts are considered based on review of receivable period and assessment of past debt collection experience. Accordingly, there was no provision of doubtful debt in the 1st quarter 2018.

(2) Inventory of the Company and subsidiary companies as at March 31, 2018 was 8.97 percent of total assets without deterioration of the products. Therefore, there was no allowance for impairment loss of inventory in the 1st quarter 2018.

(3) The Company's goodwill incurred from investment in the subsidiary company in Indonesia as at March 31, 2018 was accounted for 1.97 percent of total assets, of which the Company 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 1st quarter 2018.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The total debt to equity ratio of the Company and subsidiary companies as at March 31, 2018 was as low as 0.59:1 with appropriate capital structure. The Company has cash generation and credit facilities sufficient for future investment projects.

(2) The current ratio and quick ratio of the Company and subsidiary companies as at March 31, 2018 were as high as 1.59 times and 0.98 times, respectively, which was still regarded as good liquidity.

(3) The cash cycle of the Company and subsidiary companies in the 1st quarter 2018 was only 44 days, which improved from the same period last year by 8 days. The average debt collection period was at 35 days, which increased from the same period last year by 10 days. The average inventory turnover was at 30 days, equivalent to the same period last year, but the average debt repayment period was at 21 days, increased from the same period last year by 2 days.

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 sell or 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.

FUTURE TREND

Coal Business: It is expected that the operating results of the coal business, which is a core business, will grow higher in year 2018, as coal prices still remain at the high level and should continue this trend. Furthermore, the Company has continued to seek for additional investment in coal mine concessions and recently agreed to invest in the new coal mine concession of PT. Pesona Khatulistiwa Nusantara ("PKN") in Indonesia for 40 percent of the paid-up capital of PKN, which has a 30-year coal concession period from 2009 to 2039 with remaining mineable coal reserve of 47 million metric tons. PKN has started coal production since 2009 and is ready to earn revenue and profit for the Company immediately with the Company having already disclosed the information on this transaction to the Stock Exchange of Thailand for the shareholders and investors.

Ethanol Business: As global crude oil prices are likely to continue climbing, together with oil pricing policy of the Government to encourage consumers to use gasohol E20 or E85 which will increase the demand of ethanol. The subsidiary company has endeavored to improve the production efficiency in order to reduce the cost of ethanol production and increase its competitiveness.

Regardless, the overall operating results in year 2018 are expected to be more profitable as coal price maintaining at high level with positive trend. Nonetheless, the Company shall endeavor to manage and resolve all the problems with prudence and caution to ensure good operating results in the following years and proceed with regular dividend payments to shareholders according to the established policy.
