

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter 2013
and the First 6-Month Period of 2013)

REVENUES	Year 2013		Year 2012		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April – June)						
Sales Revenue from Coal	2,437.73	85.56	3,480.56	88.94	(1,042.83)	(29.96)
Sales Revenue from Ethanol	403.87	14.18	418.84	10.70	(14.97)	(3.57)
Other Revenue	7.39	0.26	13.83	0.36	(6.44)	(46.57)
Total Revenue	2,848.99	100.00	3,913.23	100.00	(1,064.24)	(27.20)
6-Month Period (January – June)						
Sales Revenue from Coal	4,890.10	85.52	5,863.41	88.27	(973.31)	(16.60)
Sales Revenue from Ethanol	810.27	14.17	706.61	10.64	103.66	14.67
Other Revenue	17.54	0.31	72.56	1.09	(55.02)	(75.83)
Total Revenue	5,717.91	100.00	6,642.58	100.00	(924.67)	(13.92)

REVENUES

(1) The Company's total revenue in the 2nd quarter 2013 totaled Baht 2,848.99 million, which decreased from the same period last year by Baht 1,064.24 million or a decrease of 27.20 percent, due to the following reasons.

(1.1) Revenue from coal business in the 2nd quarter 2013 totaled Baht 2,437.73 million or 85.56 percent of the total revenue, which decreased from the same period last year by Baht 1,042.83 million or a decrease of 29.96 percent. This was due to a decrease in the average coal sales price of 30.16 percent, even though the coal sales volume slightly increased by 0.29 percent.

(1.2) Revenue from ethanol business in the 2nd quarter 2013 totaled Baht 403.87 million or 14.18 percent of the total revenue, which decreased from the same period last year by Baht 14.97 million or a decrease of 3.57 percent. This was due to a decrease in ethanol sales volume of 17.48 percent, even though the average ethanol sales price increased by 21.68 percent.

(1.3) Other revenue in the 2nd quarter 2013 totaled Baht 7.39 million or 0.26 percent of the total revenue, which decreased from the same period last year by Baht 6.44 million or a decrease of 46.57 percent. This was due to the dissolution of one of the subsidiary companies, and thus there was no revenue from coal transport, loading port and jetty facilities services.

(2) The Company's total revenue in the first 6-month period of 2013 totaled Baht 5,717.91 million, which decreased from the same period last year by Baht 924.67 million or a decrease of 13.92 percent, due to the following reasons.

(2.1) Revenue from coal business in the first 6-month period of 2013 totaled Baht 4,890.10 million or 85.52 percent of the total revenue, which decreased from the same period last year by Baht 973.31 million or a decrease of 16.60 percent. This was due to a decrease in the average coal sales price from the same period last year of 31.22 percent, even though the coal sales volume increased from the same period last year by 21.26 percent.

(2.2) Revenue from ethanol business in the first 6-month period of 2013 totaled Baht 810.27 million or 14.17 percent of the total revenue, which increased from the same period last year by Baht 103.66 million or an increase of 14.67 percent. This was due to a slight increase in ethanol sales volume from the same period last year by 0.09 percent and an increase in the average ethanol sale price of 16.59 percent.

(2.3) Other revenue in the first 6-month period of 2013 totaled Baht 17.54 million or 0.31 percent of the total revenue, which decreased from the same period last year by Baht 55.02 million or a decrease of 75.83 percent as described in (1.3) above.

EXPENSES	Year 2013		Year 2012		Increase/(Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
<u>2nd Quarter (April – June)</u>						
<u>Coal Business</u>						
Cost of sales	1,458.49	59.83	2,161.71	62.11	(703.22)	(32.53)
Selling and administrative expenses	668.42	27.42	684.79	19.67	(16.37)	(2.39)
Financial cost	0.15	0.01	0.10	0.00	0.05	50.00
Corporate income tax	93.97	3.85	212.76	6.11	(118.79)	(55.83)
<u>Ethanol Business</u>						
Cost of sales	340.56	84.32	309.11	73.80	31.45	10.17
Selling and administrative expenses	20.20	5.00	8.47	2.02	11.73	138.49
Financial cost	15.03	3.72	15.96	3.81	(0.93)	(5.83)
<u>6-Month Period (January – June)</u>						
<u>Coal Business</u>						
Cost of sales	2,997.62	61.30	3,658.04	62.39	(660.42)	(18.05)
Selling and administrative expenses	1,282.58	26.23	1,140.87	19.46	141.71	12.42
Financial cost	0.16	0.00	0.18	0.00	(0.02)	(11.11)
Corporate income tax	182.80	3.74	377.01	6.43	(194.21)	(51.51)
<u>Ethanol Business</u>						
Cost of sales	674.49	83.24	506.47	71.68	168.02	33.17
Selling and administrative expenses	40.06	4.94	21.25	3.01	18.81	88.52
Financial cost	28.18	3.48	23.93	3.39	4.25	17.76

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 2nd quarter 2013 decreased from the same period last year by Baht 838.33 million or a decrease of 27.40 percent due to the following reasons.

(1.1) Cost of coal sales in the 2nd quarter 2013 decreased from the same period last year by Baht 703.22 million or a decrease of 32.53 percent. This was due to the fact that even though the coal sales volume increased by 0.29 percent, but the average coal sales cost per ton decreased by 32.72 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2013 decreased from the same period last year by Baht 16.37 million or a decrease of 2.39 percent according to a decrease in coal sales volume.

(1.3) Financial cost in the 2nd quarter 2013 slightly increased from the same period last year by Baht 0.05 million.

(1.4) Corporate income tax in the 2nd quarter 2013 decreased from the same period last year by Baht 118.79 million or a decrease of 55.83 percent due to a decrease in net profit.

(2) Expenses from coal business in the first 6-month period of 2013 decreased from the same period last year by Baht 712.94 million or a decrease of 13.77 percent due to the following reasons.

(2.1) Cost of coal sales in the first 6-month period of 2013 decreased from the same period last year by Baht 660.42 million or a decrease of 18.05 percent. This was due to the fact that even though in the coal sales volume increased by 21.26 percent, but the average coal sales cost per ton decreased by 32.42 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2013 increased from the same period last year by Baht 141.71 million or an increase of 12.42 percent, according to the increase in coal sales revenue.

(2.3) Financial cost in the first 6-month period of 2013 decreased from the same period last year by Baht 0.02 million or a decrease of 11.11 percent as there was no loan used in the coal business.

(2.4) Corporate income tax in the first 6-month period of 2013 decreased from the same period last year by Baht 194.21 million or a decrease of 51.51 percent due to a decrease in net profit.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 2nd quarter 2013 increased from the same period last year by Baht 42.25 million or an increase of 12.67 percent due to the following reasons.

(1.1) Cost of ethanol sales in the 2nd quarter 2013 increased from the same period last year by Baht 31.45 million or an increase of 10.17 percent. This was due to an increase in the average ethanol cost of sales of 44.03 percent and an increase in raw material price of molasses, which is a major cost, from the same period last year of 57.21 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2013 increased from the same period last year by Baht 11.73 million or an increase of 138.49 percent due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance.

(1.3) Financial expenses in the 2nd quarter 2013 decreased from the same period last year by Baht 0.93 million or a decrease of 5.83 percent due to a decrease in loan interest.

(1.4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion.

(2) Expenses from ethanol business in the first 6-month period of 2013 increased from the same period last year by Baht 191.08 million or an increase of 34.64 percent due to the following reasons.

(2.1) Cost of ethanol sales in the first 6-month period of 2013 increased from the same period last year by Baht 168.02 million or an increase of 33.17. This was due to an increase in the average ethanol cost of sales of 38.47 percent and an increase in raw material price of molasses, which is a major cost, from the same period last year of 51.07 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2013 increased from same period last year by Baht 18.81 million or an increase of 88.52 percent due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance.

(2.3) Financial expenses in the in the first 6-month period of 2013 increased from the same period last year by Baht 4.25 million or an increase of 17.76 percent due to an increase in loan interest.

(2.4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion.

GROSS PROFIT	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
<u>2nd Quarter (April – June)</u>						
<u>Year 2013</u>						
Revenues from Sales	2,437.73	100.00	403.87	100.00	2,841.60	100.00
<u>Less</u> Cost of Sales	1,458.49	59.83	340.56	84.32	1,799.05	63.31
Gross Profit	979.24	40.17	63.31	15.68	1,042.55	36.69
<u>Year 2012</u>						
Revenues from Sales	3,480.56	100.00	418.84	100.00	3,899.40	100.00
<u>Less</u> Cost of Sales	2,161.71	62.11	309.11	73.80	2,470.82	63.36
Gross Profit	1,318.85	37.89	109.73	26.20	1,428.58	36.64
<u>6-Month Period (January – June)</u>						
<u>Year 2013</u>						
Sales Revenues	4,890.10	100.00	810.27	100.00	5,700.37	100.00
<u>Less</u> Cost of Sales	2,997.62	61.30	674.49	83.24	3,672.11	64.42
Gross Profit	1,892.48	38.70	135.78	16.76	2,028.26	35.58
<u>Year 2012</u>						
Revenues from Sales	5,863.41	100.00	706.61	100.00	6,570.02	100.00
<u>Less</u> Cost of Sales	3,658.04	62.39	506.47	71.68	4,164.51	63.39
Gross Profit	2,205.37	37.61	200.14	28.32	2,405.51	36.61

GROSS PROFIT

(1) The Company's gross profit in the 2nd quarter 2013 was Baht 1,042.55 million, or a gross profit margin of 36.69 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,428.58 million or gross profit margin of 36.64 percent of sales revenue, the gross profit margin slightly increased due to the following reasons.

(1.1) Gross profit margin from the coal business in the 2nd quarter 2013 was 40.17 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 37.89 percent of the sales revenue.

(1.2) Gross profit margin from the ethanol business in the 2nd quarter 2013 was 15.68 percent of the sales revenue which decreased from the same period last year with the gross profit margin of 26.20 percent. This was due to an increase in the price of raw material, molasses, which is considered a major cost as described above.

(2) The Company's gross profit in the first 6-month period of 2013 was Baht 2,028.26 million, or a gross profit margin of 35.58 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 2,405.51 million or gross profit margin of 36.61 percent of sales revenue, the gross profit margin slightly decreased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 6-month period of 2013 was 38.70 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 37.61 percent of the sales revenue.

(2.2) Gross profit margin from the ethanol business in the first 6-month period of 2013 was 16.76 percent of the sales revenue which decreased from the same period last year with the gross profit margin of 28.32 percent due to the decrease in the price of raw material, molasses, which is considered a major cost as described above.

NET PROFIT	Year 2013		Year 2012		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
<u>2nd Quarter (April – June)</u>						
Profit from Coal Business	133.99	80.20	256.49	75.99	(122.50)	(47.76)
Profit from Ethanol Business	21.22	12.70	63.01	18.67	(41.79)	(66.32)
Share of income from investment in the associate company and other revenues	11.85	7.10	18.04	5.34	(6.19)	(34.31)
Net Profit	167.06	100.00	337.54	100.00	(170.48)	(50.51)
Net Earnings per Share-Baht per Share	0.32		0.64		(0.32)	(50.51)
<u>6-Month Period (January – June)</u>						
Profit from Coal Business	268.54	77.83	413.04	67.78	(144.50)	(34.98)
Profit (Loss) from Ethanol Business	51.90	15.04	116.15	19.06	(64.25)	(55.32)
Share of income from investment in the associate company and other revenues	24.61	7.13	80.18	13.16	(55.57)	(69.31)
Net Profit	345.05	100.00	609.37	100.00	(264.32)	(43.38)
Net Earnings per Share-Baht per Share	0.66		1.16		(0.50)	(43.38)
Remark: Registered par value of Baht 1 per share						

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2013 was Baht 167.06 million (net earnings of Baht 0.32 per share). When compared with the same period last year with the net profit of Baht 337.54 million (net earnings of Baht 0.64 per share), the net profit decreased by Baht 170.48 million (a decrease of net earnings of Baht 0.32 per share) or a decrease of 50.51 percent due to the following reasons.

(1.1) Net profit from coal business in the 2nd quarter 2013 was Baht 133.99 million or 80.20 percent of the total net profit, which decreased from the same period last year by Baht 122.50 million or a decrease of 47.76 percent, due to the decrease in average coal selling price per ton as described above.

(1.2) Net profit from ethanol business in the 2nd quarter 2013 was Baht 21.22 million or 12.70 percent of the total net profit, which decreased from the same period last year by Baht 41.79 million or a decrease of 66.32 percent. This was due to the increase in the price of raw material, molasses, which is a major cost as described above.

(1.3) Net share of income from investment in the associated company and other revenue in the 2nd quarter 2013 was Baht 11.85 million or 7.10 percent of the total net profit, which decreased from the same period last year by Baht 6.19 million or a decrease of 34.31 percent, as there was no revenue from coal transport, loading port and jetty services as described above.

(2) The Company's net profit in the first 6-month period of 2013 was Baht 345.05 million (net earnings of Baht 0.66 per share). When compared with the same period last year with the net profit of Baht 609.37 million (net earnings of Baht 1.16 per share), the net profit decreased by Baht 264.32 million (a decrease of net earnings of Baht 0.50 per share) or a decrease of 43.38 percent due to the following reasons.

(2.1) Net profit from the coal business in the first 6-month period of 2013 was Baht 268.54 million or 77.83 percent of the total net profit, which decreased from the same period last year by Baht 144.50 million or a decrease of 34.98 percent, due to the decrease in the average coal selling price per ton as described above.

(2.2) Net profit from the ethanol business in the first 6-month period of 2013 was Baht 51.90 million or 15.04 percent of the total net profit, which decreased from the same period last year by Baht 64.25 million or a decrease of 55.32 percent, due to the increase in the price of raw material, molasses, which is a major cost as described above.

(2.3) Net share of income from investment in associated companies and other revenue in the first 6-month period of 2013 were Baht 24.61 million or 7.13 percent of the total net profit, which decreased from the same period last year by Baht 55.57 million or a decrease of 69.31 percent, as there was no revenue from coal transport, loading port and jetty services as described above.

EBITDA and EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the 2nd quarter 2013 was Baht 845.45 million. When compared with the same period last year with EBITDA of Baht 1,421.99 million, the EBITDA decreased by Baht 576.54 million or a decrease of 40.54 percent.

(2) The Company's EBITDA margin in the 2nd quarter 2013 was at 14.79 percent of the total revenues. When compared with the same period last year with EBITDA margin at 21.41 percent of the total revenues, it decreased by 30.93 percent.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the 2nd quarter 2013 was 9.10 percent of the total revenues. When compared with the same period last year with the net profit margin of 13.86 percent of the total revenues, the net profit margin decreased by 34.38 percent.

(2) The Company's return on equity in the 2nd quarter 2013 was 9.16 percent. When compared with the same period last year with the average return on equity of 17.75 percent, it decreased by 48.39 percent.

(3) The Company's return on total assets and return on fixed assets in the 2nd quarter 2013 were at 6.64 percent and 20.61 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 12.59 percent and 35.11 percent, they decreased by 47.29 percent and 41.29 percent, respectively. The asset turnover ratio was at 0.73 times, which was lower than that of the same period last year with the asset turnover ratio of 0.91 times.

Description	Unit : Million Baht		Increase (Decrease)	
	As at June 30, 2013	As at December 31, 2012	Million Baht	%
Total Assets	8,039.65	7,631.92	407.73	5.34
Total Liabilities	3,174.96	3,074.30	100.66	3.27
Total Shareholders' Equity	4,864.69	4,557.62	307.07	6.74
Book Value-Baht per Share	7.36	6.99	0.37	5.29
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at June 30, 2013 increased from the end of 2012 by Baht 407.73 million or an increase of 5.34 percent, consisting of:

(1) Current assets increased from the end of 2012 by Baht 355.17 million or an increase of 8.98 percent, due to (A) cash and cash equivalent decreased from the end of 2012 by Baht 145.58 million or a decrease of 9.15 percent; (B) trade accounts receivable and other accounts receivable decreased from the end of 2012 by Baht 43.75 million or a decrease of 5.05 percent; (C) inventories increased from the end of 2012 by Baht 206.36 million or an increase of 41.08 percent due to an increase in coal stockpile prepared for delivery to the customers; and (D) other current assets increased from the end of 2012 by Baht 338.14 million or an increase of 34.02 percent due to an increase in refundable input tax and pre-paid corporate income tax.

(2) Non-current assets increased from the end of 2012 by Baht 52.56 million or an increase of 1.43 percent, due to an increase in property, plant, and equipment.

LIABILITIES: The Company's total liabilities as at June 30, 2013 increased from the end of 2012 by Baht 100.66 million or an increase of 3.27 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from the end of 2012 by Baht 130.01 million or a decrease of 17.31 percent.

(2) Short term and long term loans increased from the end of 2012 by Baht 89 million or an increase of 7.22 percent due to an increase in short term loan for working capital of subsidiary company.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., increased from the end of 2012 by Baht 90.03 million or an increase of 10.87 percent.

(4) Other liabilities, most of which are provision for mine rehabilitation and allowance for long-term benefits of employees, etc., increased from the end of 2012 by Baht 51.64 million or an increase of 13 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at the June 30, 2013 increased from the end of 2012 by Baht 307.07 million or an increase of 6.74 percent, resulting in an increase of the share's book value from Baht 6.99 per share to Baht 7.36 per share. This was due to the capital increase for stock dividend payment at Baht 175 million, the dividend payment of Baht 350 million, an increase in net profit of Baht 345.05 million, an increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 27.90 million, and an increase in minority shareholders' equity of Baht 109.12 million.

CASH FLOWS (Unit : Million Baht)	The First 6-Month Period (January – June)	
	Year 2012	Year 2011
Cash Flows from (used in) Operating Activities	88.66	853.11
Cash Flows from (used in) Investing Activities	(156.48)	(230.71)
Cash Flows from (used in) Financing Activities	(102.07)	(703.40)
Translation Adjustments in Financial Statements	13.31	1.95
Net Increase (Decrease) in Cash	(156.58)	(79.05)
Cash at the beginning of the period	1,152.59	1,212.39
Cash at the end of the period	996.01	1,133.34

CASH FLOWS

(1) The Company's net cash from operating activities in the first 6-month period of 2013 was at Baht 88.66 million, consisting of: (A) income before corporate income tax and interest payment of Baht 701.89 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 178.09 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 393.25 million due to an increase in inventories; (D) a decrease in operating liabilities of Baht 91.70 million due to a decrease in trade accounts payable and other payables; and (E) an increase in interest income by Baht 10.56 million but there were increases in interest expenses and taxes of Baht 316.93 million.

(2) The Company's net cash used in investment activities in the first 6-month period of 2013 was Baht 156.48 million, consisting of: (A) an increase in property, plant and equipment of Baht 87.90 million; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 53.71 million; and (C) short-term cash investment and other items which increased by a total of Baht 14.87 million.

(3) The Company's net cash used in financing activities in the first 6-month period of 2013 was Baht 102.07 million, including (A) a net increase in loan of Baht 89 million, (B) dividend payment of Baht 257.17 million, (C) an increase in sales of claim in trade accounts receivable of Baht 49.96 million, and (D) an increase in minority shareholders' equity of Baht 16.14 million.

LIQUIDITY

(1) The Company's current ratio and quick ratio in the first 6-month period of 2013 were at 1.79 times and 0.94 times, respectively. Accordingly, the Company and its subsidiary companies still have adequate credit line for working capital in the future.

(2) The Company's cash cycle in the first 6-month period of 2013 was at 25 days, a decrease from the same period last year of 4 days. The average debt collection period was at 27 days, a decrease from the same period last year of 3 days. The average inventory turnover was at 30 days, an increase from the same period last year of 11 days. However, the average debt payment period was at 32 days, or an increase from the same period last year of 12 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio at June 30, 2013 was as low as 0.65 to 1. Should the Company require additional funding for project investment in the future, having the interest coverage ratio in the 2nd quarter 2013 at 29.83 times, which is considered a very high ratio. Therefore, the Company should not have any problem concerning with default of interest payment.

FUTURE TREND

It is expected that the coal price in the 3rd quarter 2013 will remain low, continuing from the first 6-month period of 2013. In the 4th quarter 2013, the coal price should gradually climb up according to the recovering global economy. Nevertheless, the Company will try to manage and resolve any problems and impacts with prudence to ensure continuous good operating results in 2013.
