



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE OPERATING RESULTS OF
THE 2ND QUARTER 2014
AND THE FIRST 6-MONTH PERIOD OF 2014**

LANNA RESOURCES PUBLIC COMPANY LIMITED

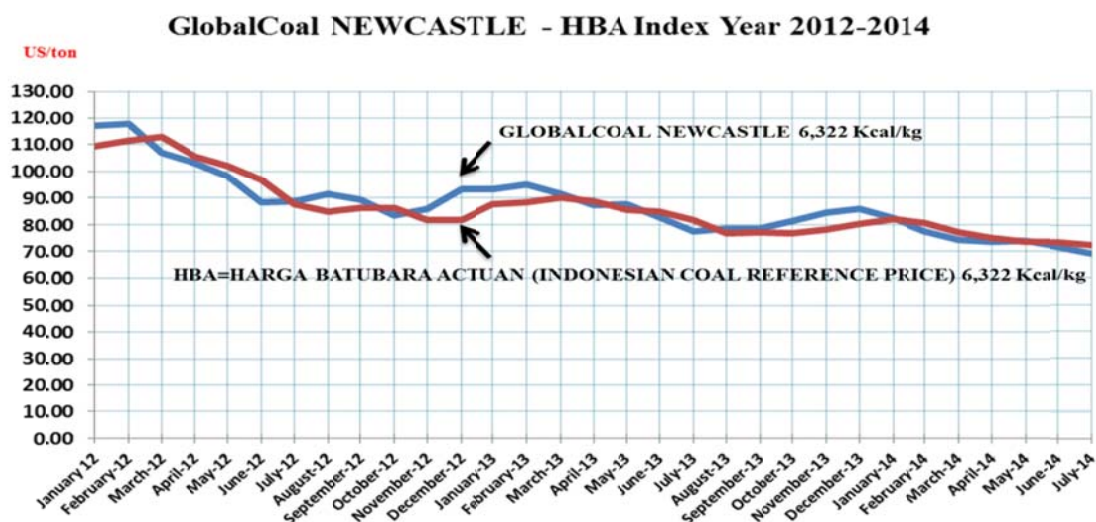
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter 2014
and the First 6-Month Period of 2014)

OVERALL OPERATING RESULTS

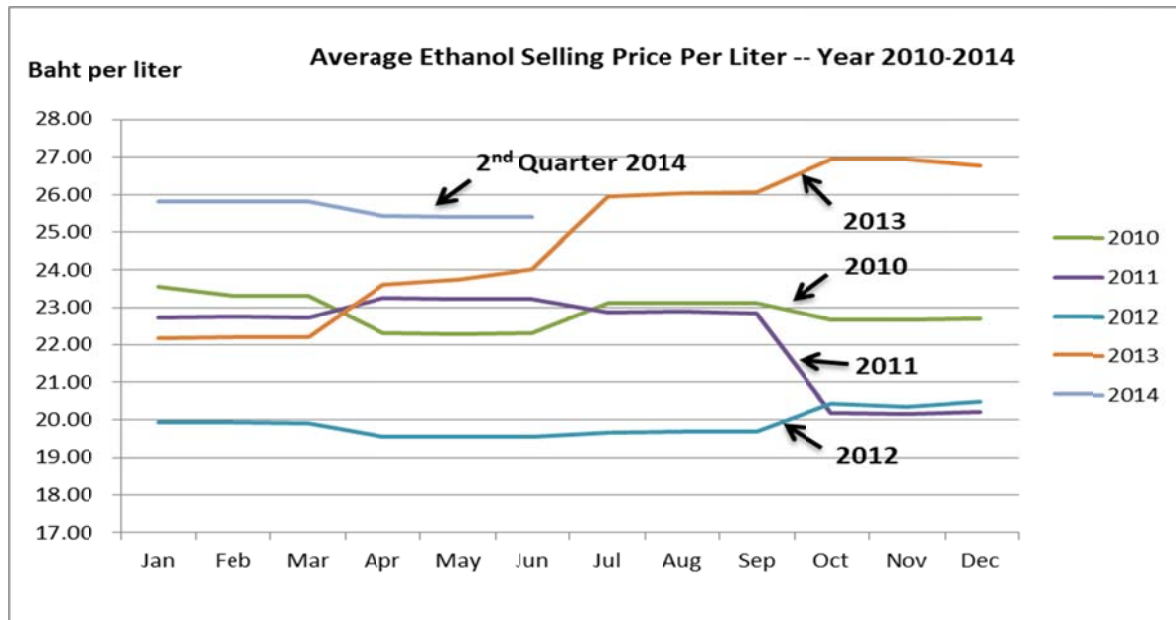
The Company's revenue in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 3,510.45 million and Baht 6,814.19 million, respectively, which increased from the same period last year by 23.22 and 19.17 percent. The net profit in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 98.58 million and Baht 313.62 million, respectively, which decreased from the same period last year by 40.99 and 9.11 percent. Although the coal sales volume increased, the coal price has been continuously decreasing. Meanwhile, the revenue from ethanol business increased due to an increase in ethanol sales volume and price in accordance with a continuous increase in the domestic ethanol demand due to the termination of Gasoline 91 and promotion of the production of automobiles that use Gasohol E20 and E85 by the government. The net profit from ethanol business thus increased significantly.

- **COAL BUSINESS:** The global coal prices have been continuously decreasing since 2012. The Company still employs the same strategy by reducing mining cost and increasing production efficiency by decreasing the cost of coal winning, which is the major cost. The product mix is also carefully selected by choosing only those with high price and that highly profitable.



In summary, as for the overall operating results of the coal business, the revenue in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 2,900.72 million and Baht 5,557.61 million, which increased from the same period last year by 18.99 percent and 13.65 percent, respectively, due to the increase in coal sales volume despite a decrease in coal selling price. Thus, the net profit calculated from shareholding proportion of the Company in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 47.22 million and Baht 163.69 million, which decreased from the same period last year by 64.76 and 39.04 percent, respectively. Regardless, despite the lower operating results of the coal business, it remains continuously profitable.

- **ETHANOL BUSINESS:** The average ethanol selling price in the 2nd quarter 2014 and the first 6-month period of 2014 increased from the same period last year by 6.72 and 11.44 percent. Also, the average domestic demand of ethanol increased from 2.57 million liters per day in late 2013 to 3.13 million liters per day in June 2014. This was due to the termination of Gasoline 91 and the promotion of the production of automobiles that use Gasohol E20 and E85 by the government. Therefore, the demand for using ethanol as a mixture in gasohol has been increasing continuously.



In summary, as for the overall operating results of the ethanol business, the revenue in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 600.92 million and Baht 1,232.02 million, which increased from the same period last year by 48.79 and 52.05 percent, respectively. The net profit calculated from shareholding proportion of the Company in the 2nd quarter 2014 and the first 6-month period of 2014 were Baht 38.38 million and Baht 114.85 million, which increased from the same period last year by 80.87 and 121.29 percent, respectively. This was due to the increase in ethanol sales volume and selling price in line with the increase in ethanol demand as described above.

The Meeting of the Board of Directors has approved the spin-off plan for the listing of Thai Agro Energy Public Co., Ltd. ("TAE"), a subsidiary company with business in production and distribution of ethanol for fuel, in the Stock Exchange of Thailand by offering newly issued ordinary shares of TAE in the amount of 200,000,000 shares and selling of the existing ordinary shares of TAE held by Lanna of 96,037,733 shares, for a total amount of 296,037,733 shares. The initial public offering amount to 191,000,000 shares or 64.52 percent of the offered shares and 105,037,733 shares or 35.48 percent of the offered shares shall be offered to the existing shareholders of Lanna based on their shareholding portions (Pre-emptive Right) at the subscription ratio of 5 common shares in Lanna to 1 new common share in TAE with the offering price equal to the price offering to the public at Baht 2 per share. The objective is to raise fund required for improvement on the production and the distribution of ethanol and also for the working capital in the future. Accordingly, the selling of ordinary shares has been completed, and the revenue from the selling of ordinary shares in TAE was received on June 2, 2014. Accordingly, the Company has recognized the profit from the selling of ordinary shares in TAE of Baht 90.27 million in the separate financial statement. However, the shareholding proportion of Lanna in TAE has reduced from 75.75 percent to 51 percent of the paid-up capital. Regardless, TAE still remains a subsidiary company of Lanna. Ordinary shares of TAE has started being traded in the Stock Exchange of Thailand since June 5, 2014.

OPERATING RESULTS ANALYSIS

Revenue (Unit: Million Baht)	Quarters			Increase (Decrease)		6-Month Period (Jan – Jun)		Increase (Decrease) (%)
	1/2014	2/2014	2/2013	YoY (%)	QoQ (%)	2014	2013	
Revenue from Coal Sales	2,656.89	2,900.72	2,437.73	18.99	9.18	5,557.61	4,890.10	13.65
Revenue from Ethanol Sales	631.11	600.92	403.87	48.79	(4.78)	1,232.02	810.27	52.05
Other Revenue	65.89	8.81	7.39	19.22	(86.63)	24.56	17.54	40.02
Total Revenues	3,353.89	3,510.45	2,848.99	23.22	4.67	6,814.19	5,717.91	19.17

REVENUE

(1) The Company's total revenue in the 2nd quarter 2014 totaled Baht 3,510.45 million, which increased from the same period last year by Baht 661.46 million or 23.22 percent due to the following reasons.

(1.1) Revenue from coal business in the 2nd quarter 2014 totaled Baht 2,900.72 million, which increased from the same period last year by Baht 462.99 million or 18.99 percent. This was due to an increase in coal sales volume of 24.78 percent, but the coal selling price decreased by 4.64 percent.

(1.2) Revenue from ethanol business in the 2nd quarter 2014 totaled Baht 600.92 million, which increased from the same period last year by Baht 197.05 million or 48.79 percent. This was due to increases in ethanol sales volume and selling price of 39.46 and 6.72 percent, respectively.

(1.3) Other revenue in the 2nd quarter 2014 totaled Baht 8.81 million, which slightly increased from the same period last year by Baht 1.42 million or 19.22 percent.

(2) The Company's total revenue in the first 6-month period of 2014 totaled Baht 6,814.19 million, which increased from the same period last year by Baht 1,096.28 million or 19.17 percent due to the following reasons.

(2.1) Revenue from coal business in the first 6-month period of 2014 totaled Baht 5,557.61 million, which increased from the same period last year by Baht 667.51 million or 13.65 percent. This was due to an increase in coal sales volume of 14.71 percent, but the coal selling price slightly decreased by 0.93 percent.

(2.2) Revenue from ethanol business in the first 6-month period of 2014 totaled Baht 1,232.02 million, which increased from the same period last year by Baht 421.75 million or 52.05 percent. This was due to increases in ethanol sales volume and selling price by 37.80 and 11.44 percent, respectively.

(2.3) Other revenue in the first 6-month period of 2014 totaled Baht 24.56 million, which increased from the same period last year by Baht 7.02 million or 40.02 percent. This was due to the foreign exchange gain of Baht 8.59 million, on the contrary of the loss of Baht 26.39 million in the same period last year.

Expenses (Unit: Million Baht)	Quarters			Increase (Decrease)		6-Month Period (Jan – Jun)		Increase (Decrease) (%)
	1/2014	2/2014	2/2013	YoY (%)	QoQ (%)	2014	2013	
<u>Coal Business</u>								
Cost of sales	1,726.71	1,895.40	1,458.49	29.96	9.77	3,622.11	2,997.62	20.83
Selling and administrative expenses	687.30	844.86	668.42	26.40	22.92	1,482.00	1,282.58	15.55
Financial cost	2.00	1.33	0.15	786.67	(33.50)	3.33	0.16	1,981.25
Corporate income tax	97.68	77.96	93.97	(17.04)	(20.19)	175.65	182.80	(3.91)
<u>Ethanol Business</u>								
Cost of sales	503.97	513.33	340.56	50.73	1.86	1,017.30	674.49	50.83
Selling and administrative expenses	10.03	13.58	20.20	(32.77)	35.39	23.61	40.06	(41.06)
Financial cost	15.41	15.36	15.03	2.20	(0.32)	30.77	28.18	9.19

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 2nd quarter 2014 totaled Baht 2,819.55 million, which increased from the same period last year by Baht 598.52 million or 26.95 percent, due to the following reasons.

(1.1) Cost of coal sales in the 2nd quarter 2014 increased from the same period last year by Baht 436.91 million or 29.96 percent. This was due to increases in coal sales volume and cost of coal sales of 24.78 percent and 4.15 percent, respectively.

(1.2) Selling and administrative expenses in the 2nd quarter 2014 increased from the same period last year by Baht 176.44 million or 26.40 percent according to the increased coal sales volume.

(1.3) Financial cost in the 2nd quarter 2014 increased from the same period last year by Baht 1.18 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 in the 2nd quarter 2014 decreased from the same period last year by Baht 16.01 million or 17.04 percent.

(2) Expenses from coal business in the first 6-month period of 2014 totaled Baht 5,283.09 million, which increased from the same period last year by Baht 819.93 million or 18.37 percent, due to the following reasons.

(2.1) Cost of coal sales in the first 6-month period of 2014 increased from the same period last year by Baht 624.49 million or 20.83 percent. This was due to increases in coal sales volume and cost of coal sales of 14.71 and 5.33 percent, respectively.

(2.2) Selling and administrative expenses in the first 6-month period of 2014 period increased from the same period last year by Baht 199.42 million or 15.55 percent according to the increased coal sales volume.

(2.3) Financial cost in the first 6-month period of 2014 increased from the same period last year by Baht 3.17 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.

(2.4) Corporate income in the first 6-month period of 2014 decreased from the same period last year by Baht 7.15 million or 3.91 percent.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 2nd quarter 2014 totaled Baht 542.27 million, which increased from the same period last year by 44.30 percent, due to the following reasons.

(1.1) Cost of ethanol sales in the 2nd quarter 2014 increased from the same period last year by Baht 172.77 million or 50.73 percent. This was due to increases in ethanol sales volume and cost of sales of 39.46 and 8.08 percent, respectively, due to the increase in molasses (raw material) price, which is a major cost, from the same period last year by 7.43 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2014 decreased from the same period last year by Baht 6.62 million or 32.77 percent. This was due to the cost of the Ethanol Production Line No. 1, which had had a temporary shutdown for repairs and maintenance in the 2nd quarter 2013 but resumed its normal operation in the 2nd quarter 2014.

(1.3) Financial expenses in the 2nd quarter 2014 increased from the same period last year by Baht 0.33 million or 2.20 percent.

(1.4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520.

(2) Expenses from ethanol business in the first 6-month period of 2014 totaled Baht 1,071.68 million, which increased from the same period last year by 44.29 percent, due to the following reasons.

(2.1) Cost of ethanol sales in the first 6-month period of 2014 increased from the same period last year by Baht 342.81 million or 50.83 percent. This was due to increases in ethanol sales volume and cost of sales of 37.80 and 10.66 percent, respectively, due to the increase in molasses (raw material) price, which is a major cost, from the same period last year by 12.02 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2014 decreased from the same period last year by Baht 16.45 million or 41.06 percent. This was due to the cost of the Ethanol Production Line No. 1, which had had a temporary shutdown for repairs and maintenance in the 2nd quarter 2013 but resumed its normal operation in the 2nd quarter 2014.

(2.3) Financial expenses in the first 6-month period of 2014 increased from the same period last year by Baht 2.59 million or 9.19 percent due to short term loans engaged as working capital for the purchase of molasses as raw material, resulting in an increase in interest expense.

(2.4) There was no corporate income tax on the earnings from the ethanol business, having received the Board of Investment Promotion according to the Investment Promotion Act B.E. 2520.

Gross Profit	Coal Business		Ethanol Business		Total	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April - June)						
<u>Year 2014</u>						
Revenues from sales	2,900.72	100.00	600.92	100.00	3,501.64	100.00
<u>Less</u> Cost of sales	1,895.40	65.34	513.33	85.42	2,408.73	68.79
Gross Profit	1,005.32	34.66	87.59	14.58	1,092.91	31.21
<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
6-Month Period (January – June)						
<u>Year 2014</u>						
Revenues from sales	5,557.61	100.00	1,232.02	100.00	6,789.63	100.00
<u>Less</u> Cost of sales	3,622.11	65.17	1,017.30	82.57	4,639.41	68.33
Gross Profit	1,935.50	34.83	214.72	17.43	2,150.22	31.67
<u>Year 2013</u>						
Revenues from sales	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

GROSS PROFIT

(1) The Company's gross profit in the 2nd quarter 2014 was Baht 1,092.91 million, or gross profit margin of 31.21 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,042.55 million or gross profit margin of 36.69 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1.1) Gross profit margin from coal business in the 2nd quarter 2014 was 34.66 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 40.17 of the sales revenue. This was due to a decrease in coal sales price, but the cost of coal sales increased as described above.

(1.2) Gross profit margin from the ethanol business in the 2nd quarter 2014 was 14.58 percent of the sales revenue, which decreased from the same period last year with gross profit margin of 15.68 percent of the sales revenue. This was due to the increase in molasses (raw material) price as described above.

(2) The Company's gross profit in the first 6-month period of 2014 was Baht 2,150.22 million or gross profit margin of 31.67 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 2,028.26 million or gross profit margin of 35.58 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 6-month period of 2014 was 34.83 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 38.70 percent of the sales revenue. This was due to a decrease in coal sales price, but the cost of coal sales increased as described above.

(2.2) Gross profit margin from the ethanol business in the first 6-month period of 2014 was 17.43 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 16.76 percent of the sales revenue. This was due to the fact that the ethanol selling price increased at higher proportion than the increase of cost of ethanol sales as described above.

Net Profit (Unit: Million Baht)	Quarters			Increase (Decrease)		6-Month Period (Jan – Jun)		Increase (Decrease) (%)
	1/2014	2/2014	2/2013	YoY (%)	QoQ (%)	2014	2013	
Profit from Coal Business	66.32	47.22	133.99	(64.76)	(28.80)	163.69	268.54	(39.04)
Profit from Ethanol Business	76.48	38.38	21.22	80.87	(49.82)	114.85	51.90	121.29
Share of income from investment in associate company and other revenue	72.24	12.98	11.85	9.54	(82.03)	35.08	24.61	42.54
Net Profit	215.04	98.58	167.06	(40.99)	(54.16)	313.62	345.05	(9.11)
Net Earnings per Share -Baht per Share	0.41	0.19	0.32	(40.99)	(54.16)	0.60	0.66	(9.11)

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2014 was Baht 98.58 million, or net earnings of Baht 0.19 per share. When compared with the same period last year, the net profit decreased by 40.99 percent due to the following reasons.

(1.1) Net profit from coal business in the 2nd quarter 2014 was Baht 47.22 million or 47.90 percent of the total net profit, which decreased from the same period last year by 64.76 percent. This was due to the decrease in coal selling price and the increase in cost of coal sales as described above.

(1.2) Net profit from ethanol business in the 2nd quarter 2014 was Baht 38.38 million or 38.93 percent of the total net profit, which increased from the same period last year by 80.87 percent, due to the increase in ethanol sales volume and selling price as described above.

(1.3) Net share of income from investment in the associate company and other revenues in the 2nd quarter 2014 was Baht 12.98 million or 13.17 percent of the total net profit, which increased from the same period last year by 9.54 percent.

(2) The Company's net profit in the first 6-month period of 2014 was Baht 313.62 million, or net earnings of Baht 0.60 per share. When compared with the same period last year, the net profit decreased by 9.11 percent due to the following reasons.

(2.1) Net profit from coal business in the first 6-month period of 2014 was Baht 163.69 million or 52.19 percent of the total net profit, which decreased from the same period last year by 39.04 percent. This was due to the decrease in coal selling price and the increase in cost of coal sales as described above.

(2.2) Net profit from ethanol business in the first 6-month period of 2014 was Baht 114.85 million or 36.62 percent of the total net profit, which increased from the same period last year by 121.29 percent, due to the increase in ethanol sales volume and selling price as described above.

(2.3) Net share of income from investment in the associate company and other revenues in the first 6-month period of 2014 was Baht 35.08 million or 11.19 percent of the total net profit, which increased from the same period last year by 42.54 percent due to the foreign exchange gain as described above.

EBITDA AND EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2014 was Baht 821.51 million, slightly decreasing from the same period last year by 2.83 percent due to the decrease in profit.

(2) The Company's EBITDA margin in the first 6-month period was at 12.06 percent of the total revenues, decreasing from the same period last year of 14.79 percent by 18.46 percent due to the decrease in EBITDA as described in (1) above.

EARNINGS EFFICIENCY

The above mentioned decrease in the net profit results in a decrease in the earnings efficiency of the Company as follows.

(1) The Company's net profit margin in the first 6-month period of 2014 was at 6.83 percent, which decreased from the same period last year of 9.10 percent by 24.95 percent.

(2) The Company's return on equity in the first 6-month period of 2014 was at 7.68 percent. When compared with the same period last year with the average return on equity of 9.16 percent, it decreased by 16.18 percent.

(3) The Company's return on total assets and return on fixed assets in the first 6-month period of 2014 were at 5.28 percent and 13.99 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 6.64 percent and 20.61 percent, they decreased by 20.52 percent and 32.13 percent, respectively. The asset turnover ratio was at 0.77 times, which increased from the same period last year by 5.89 percent.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at June 30, 2014	As at December 31, 2013	Million Baht	%
Total Assets	9,097.67	8,539.66	558.01	6.53
Total Liabilities	3,297.50	3,496.96	(199.46)	(5.70)
Total Shareholders' Equity	5,800.17	5,042.70	757.47	15.02
Book Value-Baht per Share	7.94	7.63	0.31	4.06

Remark: Registered par value of Baht 1 per share

ASSETS: The Company's total assets as at June 30, 2014 increased from the end of 2013 by Baht 558.01 million or an increase of 6.53 percent, consisting of:

(1) Current assets increased from the end of 2013 by Baht 476.34 million or an increase of 10.78 percent, due to (A) cash and cash equivalent increased from the end of 2013 by Baht 277.41 million or an increase of 23.08 percent; (B) trade accounts receivable and other accounts receivable increased from the end of 2013 by Baht 186.23 million or an increase of 21.55 percent; (C) inventories increased from the end of 2013 by Baht 386.26 million or an increase of 89.72 percent, most of which were finished coal and reserved or purchased molasses for the 3rd quarter 2014; and (D) other current assets decreased from the end of 2013 by Baht 373.56 million or a decrease of 19.44 percent.

(2) Non-current assets increased from the end of 2013 by Baht 81.67 million or a slight increase of 1.98 percent, due to an increase in property, plant, and equipment.

LIABILITIES: The Company's total liabilities as at June 30, 2014 decreased from the end of 2013 by Baht 199.46 million or a decrease of 5.70 percent, consisting of:

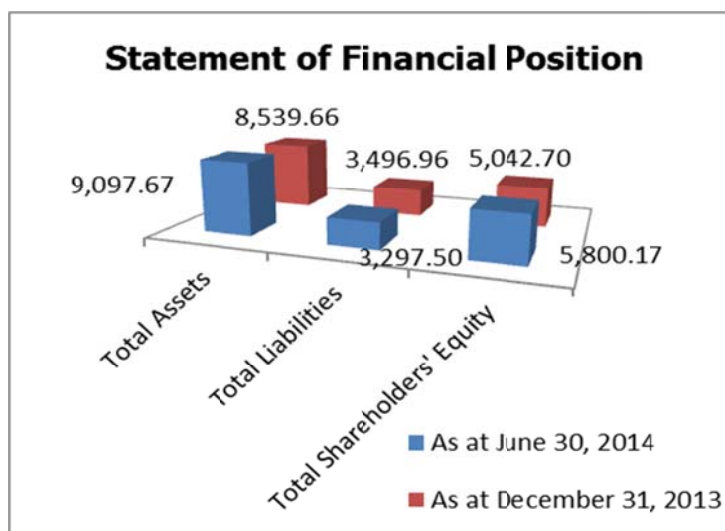
(1) Trade accounts payable and other accounts payable increased from the end of 2013 by Baht 107.62 million or an increase of 15.89 percent, most of which were coal winning, mining, and hauling costs.

(2) Short term and long term loans decreased from the end of 2013 by Baht 516.51 million or a decrease of 28.16 percent due to loan repayment by a subsidiary company.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., increased from the end of 2013 by Baht 180.56 million or an increase of 25.66 percent according to an increased coal production and distribution.

(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 2013 by Baht 28.87 million or an increase of 10.25 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at June 30, 2014 increased from the end of 2013 by Baht 757.47 million or an increase of 15.02 percent, resulting in an increase of the share's book value from Baht 7.63 per share to Baht 7.94 per share. This was due to an increase in net profit of Baht 313.62 million, dividend payment of Baht 210 million, a net increase in translation adjustment in financial statement and other items of Baht 59.05 million, and an increase in minority shareholders' equity of Baht 594.80 million. The increase in minority shareholders' equity is due to the sale of a portion of ordinary shares in TAE, a subsidiary company, resulting in the decrease of shareholding proportion of the Company from 75.75 percent to 51 percent.



Cash Flows (Unit: Million Baht)	6-Month Period (Jan – Jun)	
	2014	2013
Cash Flows from (used in) Operating Activities	741.68	88.66
Cash Flows from (used in) Investing Activities	(229.56)	(156.48)
Cash Flows from (used in) Financing Activities	(394.11)	(102.07)
Translation Adjustments in Financial Statements	13.04	13.31
Net Increase (Decrease) in Cash	131.05	(156.58)
Cash at the beginning of the period	822.02	1,152.59
Cash at the end of the period	953.07	996.01

CASH FLOWS

(1) The Company's net cash from operating activities in the first 6-month period of 2014 was at Baht 741.68 million, consisting of: (A) income before corporate income tax and interest payment of Baht 645.59 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 286.93 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 455.51 million due to an increase in inventories; (D) an increase in operating liabilities of Baht 289.93 million due to an increase in trade accounts payable and other accounts payable; and (E) an increase in interest income by Baht 10.97 million but there were increases in interest expense and taxes of Baht 36.23 million.

(2) The Company's net cash used in investment activities in the first 6-month period of 2014 was Baht 229.56 million, consisting of: (A) an increase in property, plant and equipment of Baht 237.94 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 19.16 million; and (C) short-term cash investment and other items which decreased by a total of Baht 27.54 million.

(3) The Company's net cash used in financing activities in the first 6-month period of 2014 was Baht 394.11 million, including (A) a net decrease in loan of Baht 516.50 million, (B) dividend payment of Baht 256.29 million, and (C) cash received from non-controlling interests from the sale of shares of a subsidiary company of Baht 388.80 million, and (D) a decrease in minority shareholders' equity of Baht 10.12 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at June 30, 2014 were 11.55 percent of total asset. These receivable payments are not fully due yet. 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 first 6-month period of 2014 and therefore, there was no provision for doubtful debt in the 2nd quarter 2014 and the first 6-month period of 2014.

(2) Inventory as at June 30, 2014 was 8.98 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 2nd quarter 2014 and the first 6-month period of 2014.

(3) Goodwill from investment in the subsidiary company in Indonesia as at June 30, 2014 accounted for 2.04 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 2nd quarter 2014 and the first 6-month period of 2014.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at June 30, 2014 was as low as 0.57 to 1, having appropriate capital structure. The Company should still be able to borrow additional capital for future project investment, having the interest coverage ratio in the first 6-month period of 2014 as high as 24.09 times. Therefore, the Company should not have any problem concerning with default of interest payment.

(2) The Company's current ratio and quick ratio in the first 6-month period of 2014 were at 2.02 times and 1.03 times, respectively. The Company and its subsidiary companies have adequate credit line for working capital in the future.

(3) The Company's cash cycle in the first 6-month period of 2014 was at 24 days, a decrease from the same period last year by 1 days. The average debt collection period was at 25 days, a decrease from the same period last year by 2 days. The average inventory turnover was at 24 days, which decreased from the same period last year by 6 days. However, the average debt payment period was at 25 days or a decrease from the same period last year by 7 days, which is still within normal standard.

(4) Investment in coal business is during downtrend period according to economic crisis and falling coal prices and therefore, the Company has reviewed its investment plan in the new coal concessions by delaying additional investment and waiting for appropriate time and opportunity for new investment. Nonetheless, the Company should have no problem as there are still remaining coal reserves in both coal concessions in Indonesia which can still produce coal for several more years.

(5) As for investment in the ethanol business in 2014, the construction of the fourth biogas production pond was completed in the 2nd quarter 2014. A portion of the biogas produced will be used as fuel in ethanol production, and the remaining portion will be used in the planned 3-megawatt biogas power generating system, with investment of about Baht 190 million. The completion and commencement of the 1st phase with 1-megawatt power generation are scheduled within the 3rd quarter of 2014. The 2nd phase of 2-megawatt bio-gas power generating system is scheduled to be completed within 2014. The electricity shall be used within the ethanol production plant which shall further reduce cost of ethanol production. Regarding the constructions of two molasses tanks with total capacity of 20,000 tons, having investment budget of about Baht 60 million, was completed in the 2nd quarter 2014, increasing the volume of molasses storage from 40,000 tons to 60,000 tons, allowing flexibility in receiving and storing molasses used as the main raw material for ethanol production. This will help with the cost management making the ethanol production cost lower and more effective. The source of investment fund for these projects comes from its own cash generation and the increase in capital from the initial public offering (IPO) as described above.

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 1.10 times in 2014, and no less than 1.50 times in subsequent years 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 Lanna Resources Public Co., Ltd. (Lanna) 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, Lanna 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. Additionally, TAE has obtained approval from the Office of the Securities and Exchange Commission for the initial public offering of common shares, and TAE has been listed on the Stock Exchange of Thailand since June 5, 2014. This allows TAE to acquire additional sources of capital in the future, making the capital structure of TAE more appropriate.

(4) The lending bank has stipulated that TAE cannot pay dividend to its shareholders, including Lanna, 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 Lanna in TAE, etc. Accordingly, TAE has never breached the conditions of loan agreements and has been provided with good financial support from lending banks.

IMPACTS TO FUTURE OPERATIONS

It is expected that coal prices in 2014 will continue to move in a low price level as there is still excess supply of coal. 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 in the new coal concessions by delaying the investment and waiting for appropriate time and opportunity. Regarding the ethanol business, the ethanol selling price for 2014 should be higher than in the past year 2013; however, the price of raw material, molasses, has continued to increase also. Nonetheless, the Company can still be profitable from both businesses by putting emphasis on the cost and expense reduction strategy. Accordingly, the Company shall endeavor to manage and resolve all the problems with prudence to ensure and continue with good operating results in 2014.
