



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE OPERATING RESULTS OF
THE 3RD QUARTER 2013**

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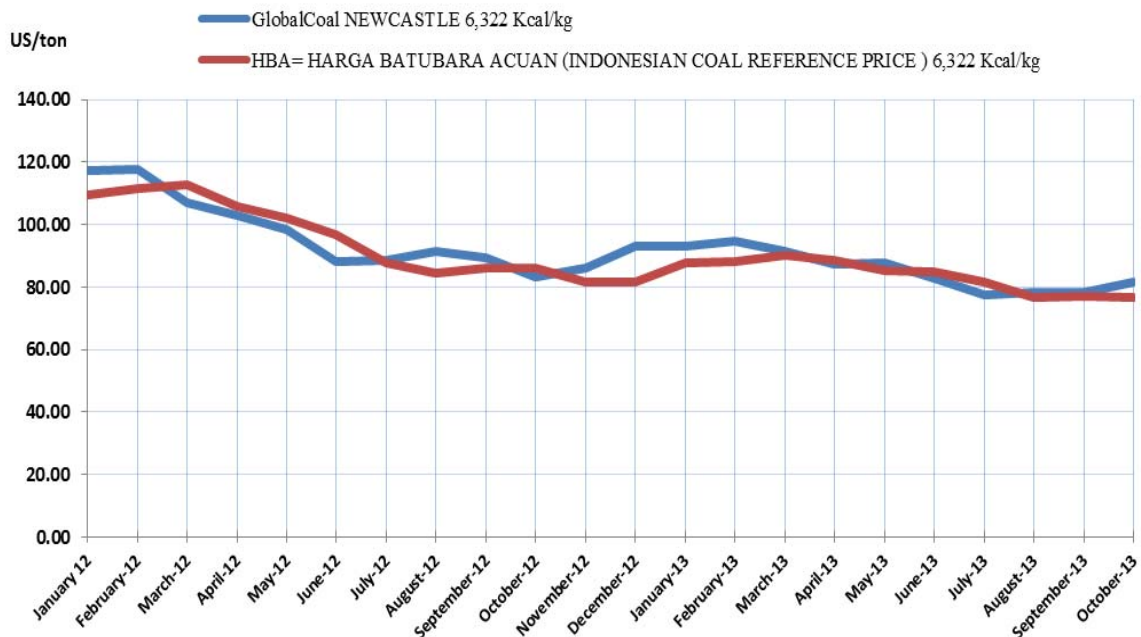
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3rd Quarter 2013
and the First 9-Month Period of 2013)

OVERALL OPERATING RESULTS

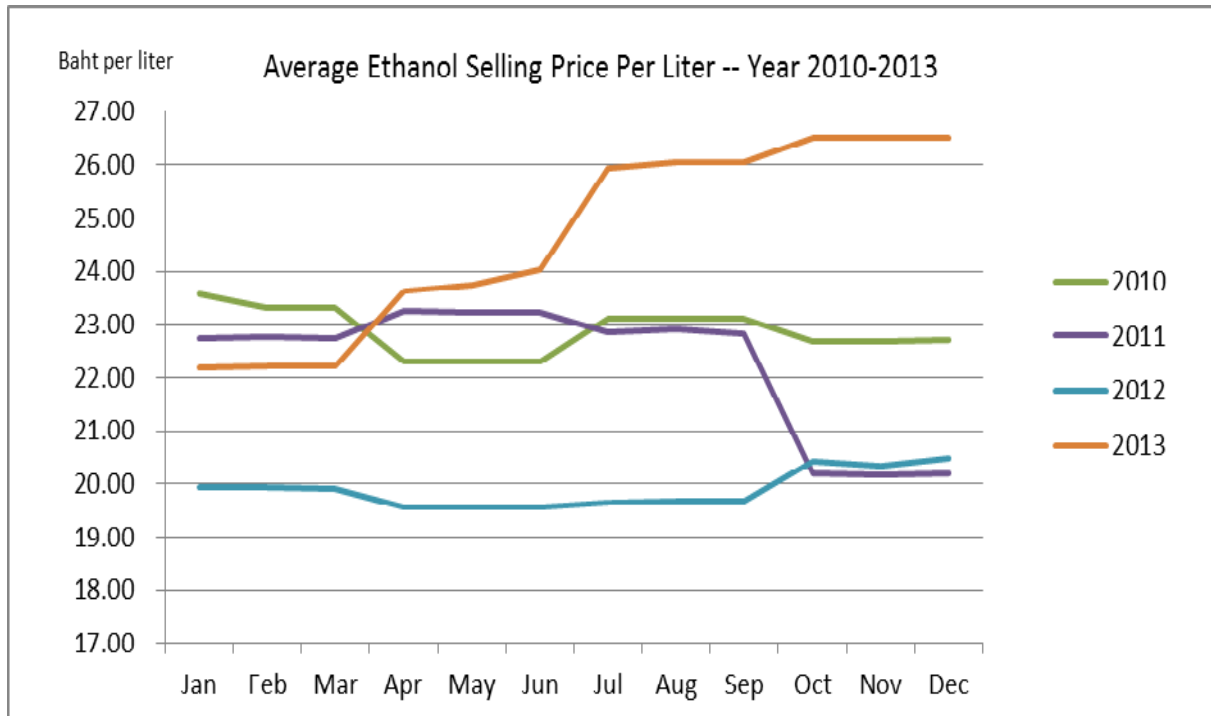
COAL BUSINESS: With the continuous decline in coal prices in the global market since 2012, the Company has been continually changing its coal production and distribution strategies as follows: (1) The cost of mine operation is reduced and the efficiency of coal production is increased by decreasing the cost of coal winning, which is the major cost. (2) The product mix is carefully select by choosing only those with high price and highly profitable. (3) Outsourced coal is blended with low quality coal from the Company's own mine in order to improve the quality of the coal so that it can be sold at higher price, resulting in higher profitability.

GlobalCoal NEWCASTLE-HBA Index Year 2012-2013



Regardless, as for the overall operating results of the coal business, the net profit in the 3rd quarter 2013 was Baht 59.02 million, which decreased from the same period last year (YoY) and from the 2nd quarter 2013 (QoQ) by 52.81 and 55.95, respectively. The net profit in the first 9-month period of 2013 was Baht 327.54 million, which decreased from the same period last year (YoY) by 39.33 percent.

ETHANOL BUSINESS: The average ethanol selling price has a continuous upward trend due to an increase in the price of molasses, a major raw material. Additionally, the average domestic ethanol consumption has increased from 1.37 million liters to 2.5 million liters per day due to the termination of Gasoline 91 and an increased promotion for automobiles that use Gasohol E20 and E85. As result, the demand for ethanol for blending with gasoline for gasohol production is increasing continuously.



In summary, as for the overall operating result of the ethanol business, the net profit in the 3rd quarter 2013 was Baht 27.03 million, which increased from the same period last year (YoY) and from the 2nd quarter 2013 (QoQ) by 30.27 and 27.38, respectively. However, the net profit in the first 9-month period of 2013 was Baht 78.93 million, which decreased from the same period last year (YoY) by 42.34 percent.

OPERATING RESULTS ANALYSIS

Revenue Unit: Million Baht	3 rd Qtr 2012	2 nd Qtr 2013	3 rd Qtr 2013	Changes (%)		9-Month Period (Jan – Sep)		Changes (%)
				YoY	QoQ	2013	2012	YoY
Revenue from Coal Sales	2,605.69	2,437.73	2,760.25	5.93	13.23	7,650.34	8,469.10	(9.67)
Revenue from Ethanol Sales	373.90	403.87	442.88	18.45	9.66	1,253.15	1,080.51	15.98
Other Revenue	6.68	7.39	6.43	(3.74)	(12.99)	23.98	77.46	(69.04)
Total Revenues	2,986.27	2,848.99	3,209.56	7.48	12.66	8,927.47	9,627.07	(7.27)

REVENUE

(1) The Company's total revenue in the 3rd quarter 2013 totaled Baht 3,209.56 million, which increased from the same period last year and from the 2nd quarter 2013 by 7.48 and 12.66 percent, respectively, due to the following reasons.

(1.1) Revenue from coal business in the 3rd quarter 2013 totaled Baht 2,760.25 million, which increased from the same period last year by 5.93 percent. This was due to an increase in coal sales volume of 19.40 percent, despite a decrease in the average coal selling price of 11.28 percent. When compared with the 2nd quarter of 2013, the revenue increased by 13.23 percent due to an increase in coal sales volume of 13.40 percent, despite a decrease in the average coal selling price of 0.15 percent.

(1.2) Revenue from ethanol business in the 3rd quarter 2013 totaled Baht 442.88 million, which increased from the same period last year by 18.45 percent. This was due to an increase in the average ethanol selling price of 32.06 percent, despite a decrease in the ethanol sales volume of 10.31 percent. When compared with the 2nd quarter of 2013, the revenue increased by 9.66 percent due to an increase in the average ethanol selling price and the ethanol sales volume of 9.20 percent and 0.42 percent, respectively.

(1.3) Other revenue in the 3rd quarter 2013 totaled Baht 6.43 million, which decreased from the same period last year and from the 2nd quarter of 2013 by 3.74 and 12.99, respectively. This was due to a decrease in the share of income from investments in the subsidiary companies.

(2) The Company's total revenue in the first 9-month period of 2013 totaled Baht 8,927.47 million, which decreased from the same period last year by 7.27 percent, due to the following reasons.

(2.1) Revenue from coal business in the first 9-month period of 2013 totaled Baht 7,650.34 million, which decreased from the same period last year by 9.67 percent. This was due to a decrease in the average coal selling price from the same period last year of 25.09 percent, even though the coal sales volume increased from the same period last year by 20.59 percent.

(2.2) Revenue from ethanol business in the first 9-month period of 2013 totaled Baht 1,253.15 million, which increased from the same period last year by 15.98 percent. This was due to an increase in the average ethanol selling price of 21.68 percent, even though the ethanol sales volume slightly decreased from the same period last year by 3.58 percent.

(2.3) Other revenue in the first 9-month period of 2013 totaled Baht 23.98 million, which decreased from the same period last year by 69.04 percent 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 in the first 9-month period of 2013.

EXPENSES Unit: Million Baht	3 rd Qtr 2012	2 nd Qtr 2013	3 rd Qtr 2013	Changes (%)		9-Month Period (Jan – Sep)		Changes (%)
				YoY	QoQ	2013	2012	YoY
<u>Coal Business</u>								
Cost of sales	1,706.70	1,458.49	1,807.12	5.88	23.90	4,804.74	5,364.74	(10.44)
Selling and administrative expenses	644.44	668.42	852.89	32.35	27.60	2,135.49	1,783.51	19.74
Financial cost	0.24	0.15	0.01	(95.83)	(93.33)	0.17	0.42	(59.52)
Corporate income tax	79.96	93.97	23.27	(70.90)	(75.24)	206.06	456.99	(54.91)
<u>Ethanol Business</u>								
Cost of sales	316.04	340.56	374.80	18.59	10.05	1,049.29	822.51	27.57
Selling and administrative expenses	15.42	20.20	18.43	19.52	(8.76)	58.49	36.68	59.46
Financial cost	15.07	15.03	15.12	0.33	0.60	43.30	39.00	11.03

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 3rd quarter 2013 increased from the same period last year and from the 2nd quarter 2013 by 10.36 and 20.81 percent, respectively, due to the following reasons.

(1.1) Cost of coal sales in the 3rd quarter 2013 increased from the same period last year by 5.88 percent. This was due to the fact that even though the coal sales volume increased by 19.40 percent, the average coal sales cost per ton decreased by 11.32 percent. When compared with the 2nd quarter 2013, the cost of coal sales increased by 23.90 percent due to increases in coal sales volume and the average coal selling price per ton of 10.40 percent and 9.26 percent, respectively.

(1.2) Selling and administrative expenses in the 3rd quarter 2013 increased from the same period last year and from the 2nd quarter 2013 by 32.35 and 27.60 percent, respectively, according to an increase in coal sales volume.

(1.3) Financial cost in the 3rd quarter 2013 decreased from the same period last year and from the 2nd quarter 2013 by 95.83 and 93.33 percent, respectively.

(1.4) Corporate income tax in the 3rd quarter 2013 decreased from the same period last year and from the 2nd quarter 2013 by 70.90 and 75.24 percent, respectively, due to a decrease in net profit.

(2) Expenses from coal business in the first 9-month period of 2013 decreased from the same period last year by 6.04 percent due to the following reasons.

(2.1) Cost of coal sales in the first 9-month period of 2013 decreased from the same period last year by 10.44 percent. This was due to the fact that even though in the coal sales volume increased by 20.59 percent, the average cost of coal sales per ton decreased by 25.73 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2013 increased from the same period last year by 19.74 percent according to the increase in coal sales revenue. The foreign exchange loss also increased due to the weakened Indonesian Rupiah.

(2.3) Financial cost in the first 9-month period of 2013 decreased from the same period last year by 59.52 percent as there was no loan used in the coal business.

(2.4) Corporate income tax in the first 9-month period of 2013 decreased from the same period last year by 54.91 percent due to a decrease in net profit.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 3rd quarter 2013 increased from the same period last year and from the 2nd quarter 2013 by 17.84 and 8.66 percent, respectively, due to the following reasons.

(1.1) Cost of ethanol sales in the 3rd quarter 2013 increased from the same period last year and from the 2nd quarter by 18.59 and 10.05 percent. This was due to an increase in the average ethanol cost of sales of 32.22 and 9.61 percent since the raw material price of molasses, which is a major cost, increased by 43.22 and 9.46 percent, respectively.

(1.2) Selling and administrative expenses in the 3rd quarter 2013 increased from the same period last year by 19.52 but decreased from the 2nd quarter 2013 by 8.76 percent due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance in the 2nd quarter 2013.

(1.3) Financial expenses in the 3rd quarter 2013 increased from the same period last year and from the 2nd quarter 2013 by 0.33 and 0.66 percent, respectively, due to an increase 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 9-month period of 2013 increased from the same period last year by 28.16 percent due to the following reasons.

(2.1) Cost of ethanol sales in the first 9-month period of 2013 increased from the same period last year by 27.57 percent. This was due to an increase in the average ethanol cost of sales of 35.51 percent since the raw material price of molasses, which is a major cost, increased from the same period last year of 47.36 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2013 increased from same period last year by 59.46 percent due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance as described above.

(2.3) Financial expenses in the in the first 9-month period of 2013 increased from the same period last year by 11.03 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	%
3rd Quarter (July - September)						
<u>Year 2013</u>						
Revenues from Sales	2,760.25	100.00	442.88	100.00	3,203.13	100.00
Less Cost of Sales	1,807.12	65.47	374.80	84.63	2,181.92	68.12
Gross Profit	953.13	34.53	68.08	15.37	1,021.21	31.88
<u>Year 2012</u>						
Revenues from Sales	2,605.69	100.00	373.90	100.00	2,979.59	100.00
Less Cost of Sales	1,706.70	65.50	316.04	84.53	2,022.74	67.89
Gross Profit	898.99	34.50	57.86	15.47	956.85	32.11
9-Month Period (January – September)						
<u>Year 2013</u>						
Sales Revenues	7,650.34	100.00	1,253.15	100.00	8,903.49	100.00
Less Cost of Sales	4,804.74	62.80	1,049.29	83.73	5,854.03	65.75
Gross Profit	2,845.60	37.20	203.86	16.27	3,049.46	34.25
<u>Year 2012</u>						
Revenues from Sales	8,469.10	100.00	1,080.51	100.00	9,549.61	100.00
Less Cost of Sales	5,364.74	63.34	822.51	76.12	6,187.25	64.79
Gross Profit	3,104.36	36.66	258.00	23.88	3,362.36	35.21

GROSS PROFIT

(1) The Company's gross profit in the 3rd quarter 2013 was Baht 1,021.21 million, or a gross profit margin of 31.88 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 956.85 million or gross profit margin of 32.11 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1.1) Gross profit margin from the coal business in the 3rd quarter 2013 was 34.53 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 34.50 percent of the sales revenue.

(1.2) Gross profit margin from the ethanol business in the 3rd quarter 2013 was 15.37 percent of the sales revenue which slightly decreased from the same period last year with the gross profit margin of 15.47 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 9-month period of 2013 was Baht 3,049.46 million, or a gross profit margin of 34.25 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 3,362.36 million or gross profit margin of 35.21 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 9-month period of 2013 was 37.20 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 36.66 percent of the sales revenue.

(2.2) Gross profit margin from the ethanol business in the first 9-month period of 2013 was 16.27 percent of the sales revenue which decreased from the same period last year with the gross profit margin of 23.88 percent due to the increase in the price of raw material – molasses, which is considered a major cost – as described above.

NET PROFIT Unit: Million Baht	3 rd Qtr 2012	2 nd Qtr 2013	3 rd Qtr 2013	Changes (%)		9-Month Period (Jan – Sep)		Changes (%)
				YoY	QoQ	2013	2012	YoY
Profit from Coal Business	125.06	133.99	59.02	(52.81)	(55.95)	327.54	539.87	(39.33)
Profit from Ethanol Business	20.75	21.22	27.03	30.27	27.38	78.93	136.90	(42.34)
Share of income from investment in associate company and other revenue	12.42	11.85	8.39	(32.45)	(29.20)	33.01	90.83	(63.66)
Net Profit	158.23	167.06	94.44	(40.31)	(43.47)	439.48	767.60	(42.75)
Net Earnings per Share -Baht per Share	0.30	0.32	0.18	(40.31)	(43.47)	0.84	1.46	(42.75)

NET PROFIT

(1) The Company's net profit in the 3rd quarter 2013 was Baht 94.44 million (net earnings of Baht 0.18 per share). When compared with the same period last year and the 2nd quarter 2013, the net profit decreased by 40.31 and 43.47 percent due to the following reasons.

(1.1) Net profit from coal business in the 3rd quarter 2013 was Baht 59.02 million or 62.49 percent of the total net profit, which decreased from the same period last year and from the 2nd quarter 2013 by 52.81 and 55.95 percent, respectively, due to the decrease in average coal selling price per ton as described above.

(1.2) Net profit from ethanol business in the 3rd quarter 2013 was Baht 27.03 million or 28.62 percent of the total net profit, which increased from the same period last year and from the 2nd quarter 2013 by 30.27 and 27.38 percent, respectively, 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 associate company and other revenue in the 3rd quarter 2013 was Baht 8.39 million or 8.89 percent of the total net profit, which decreased from the same period last year by 32.45 percent as there was no revenue from coal transport, loading port and jetty services as described above, and decreased from the 2nd quarter 2013 by 29.20 percent due to a decrease in share of income from the associate company.

(2) The Company's net profit in the first 9-month period of 2013 was Baht 439.48 million (net earnings of Baht 0.84 per share). When compared with the same period last year, the Company's net profit decreased by 42.75 due to the following reasons.

(2.1) Net profit from the coal business in the first 9-month period of 2013 was Baht 327.54 million or 74.53 percent of the total net profit, which decreased from the same period last year by 39.33 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 9-month period of 2013 was Baht 78.93 million or 17.96 percent of the total net profit, which decreased from the same period last year by 42.34 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 the associate company and other revenue in the first 9-month period of 2013 were Baht 33.01 million or 7.51 percent of the total net profit, which decreased from the same period last year by 63.66 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) is Baht 1,066.72 million, decreasing from the same period last year by 40.80 percent due to the decrease in profit of the coal business.

(2) The Company's EBITDA margin is at 11.95 percent of the total revenues, decreasing from the same period last year by 36.16 percent due to the decrease in EBITDA.

EARNINGS EFFICIENCY

The decrease in coal selling price contributes to the decrease in net profit as described above, resulting in a decrease in the earnings efficiency of the Company as follows.

(1) The Company's net profit margin in the first 9-month period of 2013 was at 7.18 percent, which decreased from the same period last year by 39.08 percent.

(2) The Company's return on equity in the first 9-month period of 2013 was at 11.50 percent. When compared with the same period last year with the average return on equity of 22.37 percent, it decreased by 48.58 percent.

(3) The Company's return on total assets and return on fixed assets in the first 9-month period of 2013 were at 7.99 percent and 26.07 percent. When compared with the same period last year with the return on total assets and return on fixed assets of 15.64 percent and 44.67 percent, they decreased by 48.93 percent and 41.64 percent, respectively. The asset turnover ratio was at 1.11 times, which was lower than that of the same period last year with the asset turnover ratio of 1.31 times.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at September 30, 2013	As at December 31, 2012	Million Baht	%
Total Assets	8,428.46	7,631.92	796.54	10.44
Total Liabilities	3,456.94	3,074.30	382.64	12.45
Total Shareholders' Equity	4,971.52	4,557.62	413.90	9.08
Book Value-Baht per Share	7.57	6.99	0.58	8.30
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at September 30, 2013 increased from the end of 2012 by Baht 796.54 million or an increase of 10.44 percent, consisting of:

(1) Current assets increased from the end of 2012 by Baht 746.63 million or an increase of 18.88 percent, due to (A) cash and cash equivalent increased from the end of 2012 by Baht 232.04 million or an increase of 14.58 percent; (B) trade accounts receivable and other accounts receivable decreased from the end of 2012 by Baht 155.51 million or a decrease of 17.96 percent; (C) inventories increased from the end of 2012 by Baht 321.50 million or an increase of 64 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 348.60 million or an increase of 35.07 percent due an increase in refundable input tax and pre-paid corporate income tax.

(2) Non-current assets increased from the end of 2012 by Baht 49.91 million or an increase of 1.36 percent, due to an increase in property, plant, and equipment.

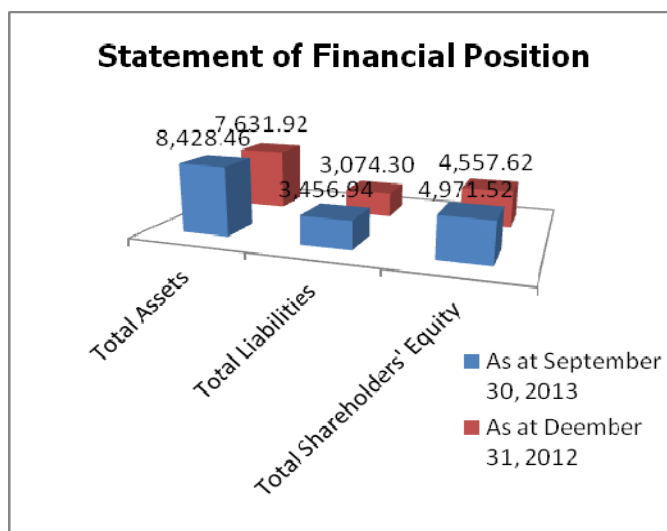
LIABILITIES: The Company's total liabilities as at September 30, 2013 increased from the end of 2012 by Baht 382.64 million or an increase of 12.45 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from the end of 2012 by Baht 207.36 million or an increase of 27.61 percent.

(2) Short term and long term loans decreased from the end of 2012 by Baht 66 million or a decrease of 5.35 percent due to scheduled loan repayment according to the contracts.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., increased from the end of 2012 by Baht 200.48 million or an increase of 24.20 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 40.80 million or an increase of 15.59 percent.



TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at September 30, 2013 increased from the end of 2012 by Baht 413.90 million or an increase of 9.08 percent, resulting in an increase of the share's book value from Baht 6.99 per share to Baht 7.57 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 439.48 million, an increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 40.74 million, and an increase in minority shareholders' equity of Baht 108.68 million.

CASH FLOWS (Unit : Million Baht)	The First 9-Month Period (January – September)	
	Year 2013	Year 2012
Cash Flows from (used in) Operating Activities	610.84	783.20
Cash Flows from (used in) Investing Activities	(191.05)	(444.02)
Cash Flows from (used in) Financing Activities	(179.35)	(818.84)
Translation Adjustments in Financial Statements	(19.40)	(25.82)
Net Increase (Decrease) in Cash	221.04	(505.48)
Cash at the beginning of the period	1,152.59	1,212.39
Cash at the end of the period	1,373.63	706.91

CASH FLOWS

(1) The Company's net cash from operating activities in the first 9-month period of 2013 was at Baht 610.84 million, consisting of: (A) income before corporate income tax and interest payment of Baht 845.03 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 302.81 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 338.74 million due to an increase in inventories; (D) an increase in operating liabilities of Baht 230.91 million due to an increase in trade accounts payable and other payables; and (E) an increase in interest income by Baht 14.31 million but there were increases in interest expenses and taxes of Baht 443.48 million.

(2) The Company's net cash used in investment activities in the first 9-month period of 2013 was Baht 191.05 million, consisting of: (A) an increase in property, plant and equipment of Baht 103.25 million; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 92.71 million; and (C) short-term cash investment and other items which decreased by a total of Baht 4.37 million.

(3) The Company's net cash used in financing activities in the first 9-month period of 2013 was Baht 179.35 million, including (A) a net decrease in loan of Baht 66 million, (B) dividend payment of Baht 291.26 million, (C) an increase in sales of claim in trade accounts receivable of Baht 154.79 million, and (D) an increase in minority shareholders' equity of Baht 23.12 million.

LIQUIDITY

(1) The Company's current ratio and quick ratio in the first 9-month period of 2013 were at 1.68 times and 0.90 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 9-month period of 2013 was at 18 days, a decrease from the same period last year of 13 days. The average debt collection period was at 24 days, a decrease from the same period last year of 6 days. The average inventory turnover was at 31 days, an increase from the same period last year of 9 days. However, the average debt payment period was at 37 days, or an increase from the same period last year of 16 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio at September 30, 2013 was as low as 0.70 to 1. Should the Company require additional funding for project investment in the future, having the interest coverage ratio in the 3rd quarter 2013 at 24.54 times, which is considered a very high ratio. Therefore, the Company should not have any problem concerning with default of interest payment.

MANAGEMENT DISCUSSION SUMMARY

It is expected that the coal price in the 4th quarter 2013 will remain low, continuing from the first 9-month period of 2013. Accordingly, the Company has set out a strategy to reduce the production and distribution cost as described above. Regarding the ethanol business, the ethanol selling price for the 4th quarter 2013 is anticipated to be higher than the first 9-month period of 2013, but the raw material price, molasses, should increase as well. Additionally, the Extraordinary Shareholder's Meeting No. 1/2013 of the Company has approved the spin-off plan for the listing of Thai Agro Energy Public Co., Ltd. – a subsidiary company in ethanol production and distribution business – in the Stock Exchange of Thailand in order to enhance its competitiveness and future business expansion. Regardless, with global economic situation and the declining coal prices as described above, the Company will try to manage and resolve and problems and impacts with prudence to ensure continuous good, albeit lower than 2012, operating results in 2013.
