



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS



**FOR THE OPERATING RESULTS OF
YEAR 2013**



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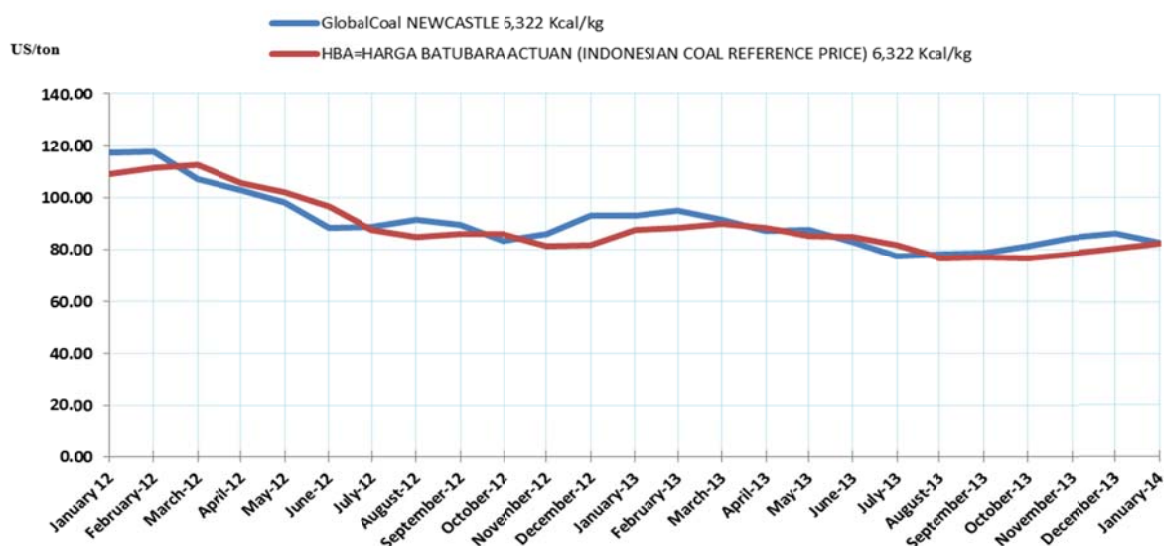
(For the Consolidated Financial Statements of Year 2013)

OVERALL OPERATING RESULTS

The Company's revenue and net profit of year 2013 were Baht 12,163.96 million and Baht 572.29 million, respectively, which decreased from the previous year by 9.56 and 37.22 percent due to the continuously falling global coal prices, resulting in decreases in revenue and net profit from coal business. Additionally, although the revenue from ethanol business increased due to the a continuous increase in average ethanol sale price in accordance with the increasing domestic ethanol demand – a result from the government's termination of Gasoline 91 and promotion of the manufacture of E20 and E85 compatible vehicles – the price of molasses, which is a raw material, has been increasing as well. As a result, the net profit from ethanol business also decreased.

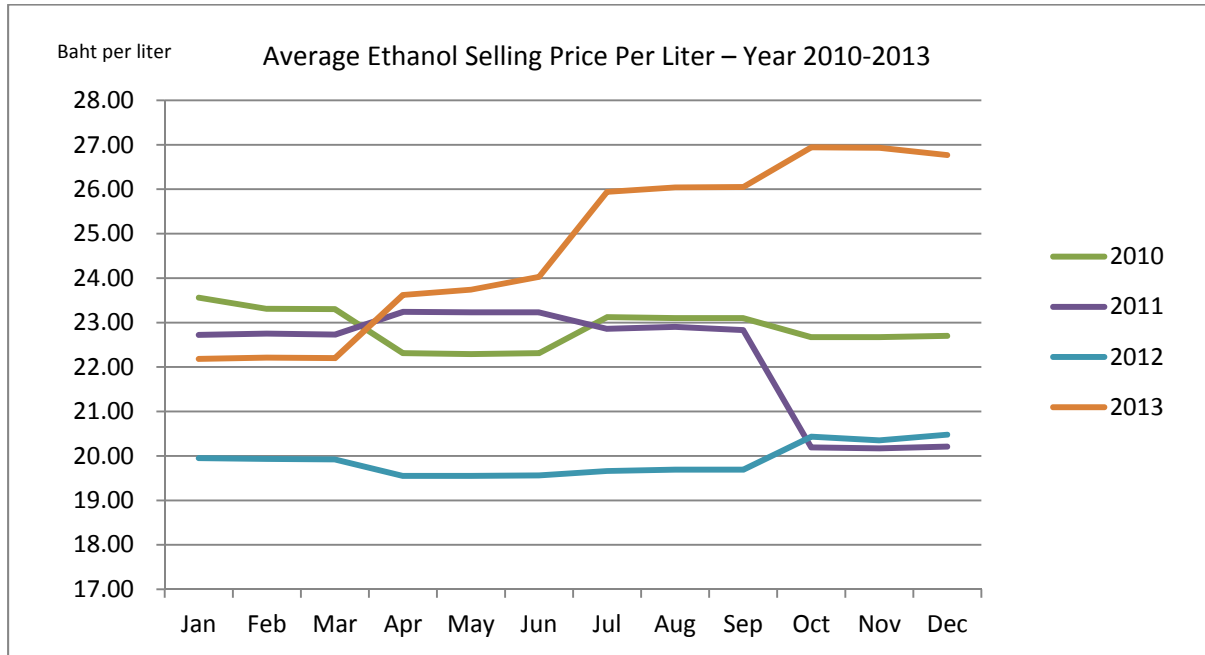
COAL BUSINESS: With the continuous decline in coal prices in the global market since 2012, the Company has been continually changing its coal production and distribution strategies as follows: (1) The cost of mine operation is reduced and the efficiency of coal production is increased by decreasing the 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 2012-2014



In summary, as for the overall operating results of the coal business, the revenue and net profit of year 2013, according to the Company's shareholding proportion, were Baht 10,473.08 million and Baht 436.29 million, which decreased from the previous year by 12.80 and 35.89, respectively. Regardless, although the operating results of coal business have decreased, the profit is still maintained continuously.

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 at the end of 2012 to 2.57 million liters per day in 2013 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 revenue and net profit of year 2013, according to the Company’s shareholding proportion, were Baht 1,659.05 million and Baht 88.44 million, respectively. Although the revenue increased from the previous year by 22.91 percent, the net profit decreased from last year by 28.26 percent due to an increase in molasses raw material price as described above. Regardless, the profit from the operating results of ethanol business is still maintained.

SIGNIFICANT CHANGES ON ACCOUNTING POLICY

The Company has changed its bookkeeping method concerning the income tax in accordance with Thai Accounting Standards No. 12, which is in force for accounting period starting on or after January 1, 2013. As a result from such changes in accounting policy, the Company is required to increase its retained earnings by Baht 68.26 million, with details as described in the note no. 4 accompanied the Financial Statements Year 2013.

OPERATING RESULTS ANALYSIS

Revenue	Year 2013		Year 2012		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Coal Business	10,473.08	86.10	12,010.26	89.30	(1,537.18)	(12.80)
Revenue from Ethanol Business	1,659.05	13.64	1,349.86	10.04	309.19	22.91
Other Revenue	31.83	0.26	89.17	0.66	(57.34)	(64.30)
Total Revenue	12,163.96	100.00	13,449.29	100.00	(1,285.33)	(9.56)

REVENUE: The Company's total revenue in year 2013 totaled Baht 12,163.96 million, which decreased from the previous year by Baht 1,285.33 million or 9.56 percent due to the following reasons:

(1) Revenue from coal business in year 2013 totaled Baht 10,473.08 million, which decreased from the previous year by Baht 1,537.18 million or 12.80 percent. This was due to a decrease in the average coal selling price of 19.05 percent, despite an increase in coal sales volume of 7.73 percent.

(2) Revenue from ethanol business in year 2013 totaled Baht 1,659.05 million, which increased from the previous year by Baht 309.19 million or 22.91 percent. This was due to an increase in the average ethanol selling price of 24.07 percent, while the ethanol sales volume remained similar to the previous year.

(3) Other revenue in year 2013 totaled Baht 31.83 million, which decreased from the previous year by Baht 57.34 million or 64.30 percent. This was to the dissolution of a subsidiary company. Thus, there was no revenue from coal transport and loading port and jetty services.

Expenses	Year 2013		Year 2012		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Coal Business						
Cost of Sales	6,680.17	63.78	7,556.05	62.91	(875.88)	(11.59)
Selling and Administrative Expenses	2,853.18	27.24	2,749.10	22.89	104.08	3.79
Financial Cost	0.87	0.01	0.42	0.00	0.45	107.14
Corporate Income Tax	276.81	2.64	608.85	5.07	(332.04)	(54.54)
Ethanol Business						
Cost of Sales	1,390.60	83.82	1,070.41	79.30	320.19	29.91
Selling and Administrative Expenses	96.87	5.84	61.23	4.54	35.64	58.21
Financial Cost	58.64	3.53	53.73	3.98	4.91	9.14

EXPENSES FROM COAL BUSINESS: Expenses from coal business in year 2013 totaled Baht 9,811.03 million, which decreased from the previous year by Baht 1,103.39 million or 10.11 percent due to the following reasons:

(1) Cost of coal sales in year 2013 decreased from the previous year by Baht 875.88 million or 11.59 percent. This was due an increased in coal sales volume of 7.73 percent, but the average coal sales cost per ton decreased by 17.93 percent.

(2) Selling and administrative expenses in year 2013 increased from the previous year by Baht 104.08 million or 3.79 percent according to an increase in coal sales volume.

(3) Financial cost in year 2013 increased from the previous year by Baht 0.45 million or 107.14 percent due to a loan engaged by a subsidiary company in Indonesia for the purchase of port and hauling road, resulting in increased interest expenses.

(4) Corporate income tax in year 2013 decreased from the previous year by 332.04 and 54.54 percent due to a decrease in profit from operating results.

EXPENSES FROM ETHANOL BUSINESS: Expenses from ethanol business in year 2013 totaled Baht 1,546.11, which increased from the previous year by 30.43 percent due to the following reasons.

(1) Cost of ethanol sales in year 2013 increased from the previous year by Baht 320.19 million or 29.91 percent. This was due to an increase in the average ethanol cost of sales of 33.55 because the molasses raw material price, which is a major cost, increased by 43.20 percent.

(2) Selling and administrative expenses in year 2013 increased from the previous year by Baht 35.64 million or 58.21 percent due to the cost of ethanol production line no. 1, which had a temporary shutdown for repairs and maintenance.

(3) Financial expenses in year 2013 increased from the previous year by Baht 4.91 million or 9.14 percent due to an engagement in short term loan used as working capital for molasses raw material procurement, resulting in increased interest expenses.

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

Gross Profit	Coal Business		Ethanol Business		Total	
	Baht Million	%	Baht Million	%	Baht Million	%
Year 2013						
Revenues from Sales	10,473.08	100.00	1,659.05	100.00	12,132.13	100.00
Less Cost of Sales	6,680.17	63.78	1,390.60	83.82	8,070.77	66.52
Gross Profit	3,792.91	36.22	268.45	16.18	4,061.36	33.48
Year 2012						
Revenues from Sales	12,010.26	100.00	1,349.86	100.00	13,360.12	100.00
Less Cost of Sales	7,556.05	62.91	1,070.41	79.30	8,626.46	64.57
Gross Profit	4,454.21	37.09	279.45	20.70	4,733.66	35.43

GROSS PROFIT: The Company's gross profit in year 2013 was Baht 4,061.36 million, or 33.48 percent of the sales revenue. When compared with the gross profit of the previous year of Baht 4,733.66 million or 35.43 percent of sales revenue, the gross profit margin decreased due to the following reasons:

(1) Gross profit margin from the coal business in year 2013 was 36.22 percent of the sales revenue, which slightly decreased from the previous year with the gross profit margin of 37.09 percent of the sales revenue. This is due to the revised coal production and distribution strategy in accordance with the falling global coal prices as described above.

(2) Gross profit margin from the ethanol business in year 2013 was 16.18 percent of the sales revenue, which slightly decreased from the previous year with the gross profit margin of 20.70 percent. This was due to an increase in the price of raw material – molasses, which is considered a major cost – as described above.

Net Profit	Year 2013		Year 2012		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Profit from Coal Business	436.29	76.24	680.57	74.66	(244.28)	(35.89)
Profit form Ethanol Business	88.44	15.45	123.28	13.52	(34.84)	(28.26)
Share of income from investment in associate company and other revenue	47.56	8.31	107.70	11.82	(60.14)	(55.84)
Net Profit	572.29	100.00	911.55	100.00	(339.26)	(37.22)
Net Earnings per Share – Baht per Share	1.09		1.74		(0.65)	(37.22)

Note: Par Value Baht 1 per share

NET PROFIT: The Company's net profit in year 2013 was Baht 572.29 million or net earnings of Baht 1.09 per share. When compared with the previous year, the net profit decreased by 37.22 percent due to the following reasons:

(1) Net profit from coal business in year 2013 was Baht 436.29 million or 76.24 percent of the total net profit, which decreased from the previous year by 35.89 percent due to the decrease in average coal selling price per ton as described above.

(2) Net profit from ethanol business in year 2013 was Baht 88.44 million or 15.45 percent of the total net profit, which decreased from the previous year by 28.26 percent due to the increase in the price of raw material – molasses, which is a major cost – as described above.

(3) Net share of income from investment in the associate company and other revenue in year 2013 was Baht 47.56 million or 8.31 percent of the total net profit, which decreased from the previous year by 55.84 percent as there was no revenue from coal transport and 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 1,405.78 million, a decrease from the previous year by 38.16 percent due to the decrease in profit.

(2) The Company's EBITDA margin is at 11.56 percent, decreasing from the previous year by 31.63 percent due to the decrease in EBITDA as described in (1) above.

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 2013 was at 6.80 percent, a decrease of 33.12 percent, as compared with the previous year with the net profit margin of 10.16 percent.

(2) The Company's return on equity in 2013 was at 14.89 percent, a decrease of 43.20 percent, as compared with the previous year with the return on equity of 26.22 percent.

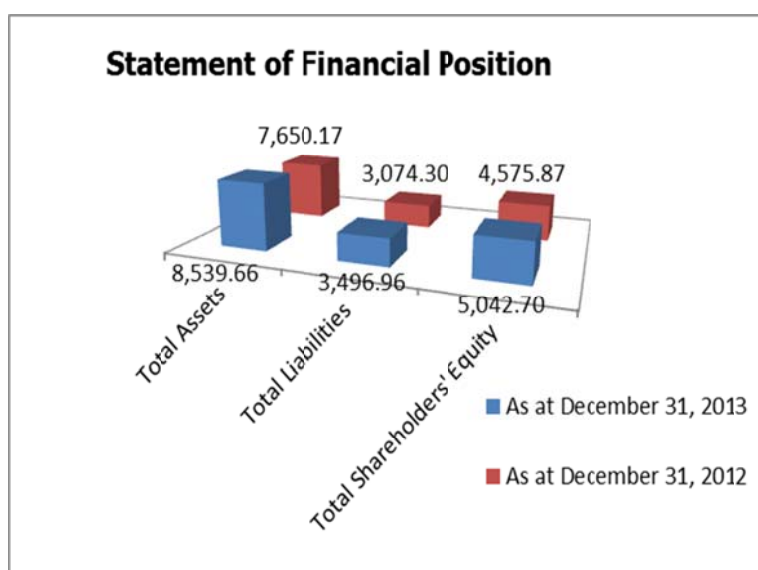
(3) The Company's return on total assets and return on fixed assets in 2013 were at 10.21 percent and 34.83 percent, respectively. When compared with the previous year with the return on total assets and return on fixed assets of 18.38 percent and 53.42 percent, they decreased by 44.45 percent and 34.81 percent, respectively. The asset turnover ratio was at 1.50 times, which was lower than the previous year with the asset turnover ratio of 1.81 times.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at December 31, 2013	As at December 31, 2012	Million Baht	%
Total Assets	8,539.66	7,650.17	889.49	11.63
Total Liabilities	3,496.96	3,074.30	422.66	13.75
Total Shareholders' Equity	5,042.70	4,575.87	466.83	10.20
Book Value-Baht per Share	7.63	7.01	0.62	8.84
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at December 31, 2013 increased from the end of 2012 by Baht 889.49 million or an increase of 11.63 percent, consisting of:

(1) Current assets increased from the end of 2012 by Baht 464.38 million or an increase of 11.75 percent, due to (A) cash and cash equivalent decreased from the end of 2012 by Baht 389.57 million or a decrease of 24.48 percent; (B) trade accounts receivable and other receivables decreased from the end of 2012 by Baht 1.72 million or a decrease of 0.20 percent; (C) inventories decreased from the end of 2012 by Baht 71.82 million or a decrease of 14.30 percent and (D) other current assets increased from the end of 2012 by Baht 927.49 million or an increase of 93.32 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 425.11 million or an increase of 11.50 percent, due to an increase in property, plant, and equipment of which mostly were the purchase of port and hauling road of the subsidiary company in Indonesia.

LIABILITIES: The Company's total liabilities as at December 31, 2013 increased from the end of 2012 by Baht 422.66 million or an increase of 13.75 percent, consisting of:

(1) Trade accounts payable and other payables decreased from the end of 2012 by Baht 73.77 million or a decrease of 9.82 percent.

(2) Short term and long term loans increased from the end of 2012 by Baht 601.07 million or an increase of 48.75 percent.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., decreased from the end of 2012 by Baht 124.67 million or a decrease of 15.05 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 20.03 million or an increase of 7.65 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at December 31, 2013 increased from the end of 2012 by Baht 466.83 million or an increase of 10.20 percent, resulting in an increase of the share's book value from Baht 7.01 per share to Baht 7.63 per share. This was due to the capital increase for stock dividend payment at Baht 175 million, the dividend payment of Baht 533.75 million, an increase in net profit of Baht 572.29 million, an increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 108.38 million, and an increase in minority shareholders' equity of Baht 144.91 million.

CASH FLOWS	Unit: Million	
	Year 2013	Year 2012
Cash Flows from (used in) Operating Activities	(3.45)	1,927.01
Cash Flows from (used in) Investing Activities	(479.38)	(803.10)
Cash Flows from (used in) Financing Activities	147.09	(1,147.49)
Translation Adjustments in Financial Statements (Decrease)	5.17	(36.22)
Net Increase (Decrease) in Cash	(330.57)	(59.80)
Cash at the beginning of the period	1,152.59	1,212.39
Cash at the end of the period	822.02	1,152.59

CASH FLOWS

(1) The Company's net cash used in operating activities in 2013 was at Baht 3.45 million, consisting of: (A) income before corporate income tax and interest payment of Baht 1,099.36 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 348.22 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 578.36 million due to an increase in refundable input tax; (D) a decrease in operating liabilities of Baht 302.79 million due to a decrease in trade accounts payable and other payables; and (E) an increase in interest income of Baht 18.73 million but there were increases in interest expenses and taxes of Baht 588.61 million.

(2) The Company's net cash used in investment activities in 2013 was Baht 479.38 million, consisting of: (A) an increase in property, plant and equipment of Baht 452.57 million; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 120.45 million; and (C) short-term cash investment and other items which decreased by a total of Baht 93.64 million.

(3) The Company's net cash from financing activities in 2013 was Baht 147.09 million, including (A) a net increase in loan of Baht 595.84 million, (B) dividend payment of Baht 509.62 million, and (C) an increase in minority shareholders' equity of Baht 60.87 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other receivables as at end of 2013 were 10.12 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 2013 and therefore, there was no provision for doubtful debt in 2013.

(2) Inventory as at end of 2013 was 5.04 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 2013.

(3) Goodwill from investment in the subsidiary company in Indonesia accounted for 2.18 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 2013.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at December 31, 2013 was as low as 0.69 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 2013 as high as 23.62 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 2013 were at 1.73 times and 0.80 times, respectively. Even though, the current ratio was lower than normal, the Company and its subsidiary companies still have adequate credit line for working capital in the future.

(3) The Company's cash cycle in 2013 was at 18 days, a decrease from the previous year by 4 days. The average debt collection period was at 26 days, a decrease from the previous year by 2 days. The average inventory turnover was at 21 days, an increase from the previous year by 5 days. However, the average debt payment period was at 29 days or an increase from the previous 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 delayed investment in the new coal concession and expects that there shall be no investment in 2014. 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. As for investment in the ethanol business in 2014, there will be construction of a 1-megawatt of power generating system using biogas fuel with investment of about Baht 51 million. The project completion and commencement of power generation are scheduled within the 3rd quarter of 2014. The electricity shall be used within the ethanol production plant which shall further reduce cost of ethanol production. In addition, there will also be investment in construction of two molasses tanks totaling 20,000 tons in volume capacity, having investment budget of about Baht 60 million, in order to increase the volume of molasses storage from 40,000 tons to 60,000 tons for 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.

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 to maintain its debt to equity ratio (D/E) of no less than 2 times and debt service coverage ratio (DSCR) of no less than 1.25 times. It appears that on the last day of year 2013, TAE could not maintain the DSCR as required by the contractual obligation of the loan. Regardless, the lending bank has issued a letter dated December 27, 2013 to waive such conditions. In the meantime, TAE is requesting for an adjustment of the DSCR condition so that it is more appropriate for the changing economic situation.

(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 load agreement. Accordingly, Lanna has no plan to decrease its shareholding proportion in TAE below than 50 percent.

(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. Additionally, TAE has planned to initiate an initial public offering and the listing in the Stock Exchange of Thailand in the near future, allowing more funding, and the capital structure of TAE should be more financially sound.

(4) The lending bank has determined that TAE will not be able to pay dividend to its shareholders, including Lanna, if TAE cannot comply the conditions of loan agreement, for example, the maintenance of D/E ratio, DSCR, and shareholding proportion of Lanna in TAE. Currently, TAE is requesting for an adjustment of the DSCR condition so that it is more appropriate for the changing economic situation as described above. Accordingly, TAE has never breached the conditions of loan agreements and has been given good supports from lending banks.

IMPACTS TO FUTURE OPERATIONS

- It is expected that coal prices in 2014 will fluctuate and continue to move in a low price level as there is still excess supply of coal and remains the economic crisis in several countries around the world. 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 wait for appropriate time and opportunity as described above. 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.

- The Extraordinary General Meeting of Shareholders No. 1/2013 on September 18, 2013, has approved the spin-off plan for the listing of Thai Agro Energy Public Co., Ltd. in the Stock Exchange of Thailand with newly issued ordinary shares of 200,000,000 shares and ordinary shares originally held by Lanna of 96,037,733 shares, totaling 296,037,733 shares by initial public offering with 191,000,000 shares, or 64.52 percent of the offered shares, and by pre-emptive right of the shareholders of Lanna with 105,037,733 shares, or 35.48 percent of the offered shares. The purpose was to raise fund required for improvement on the production and the distribution of ethanol for fuel and also as working capital in the future. The transactions should occur in 2014, resulting in a reduction of shareholding proportion of Lanna in TAE from 75.75 percent to 51 percent of the paid-up capital after the completion of the spin-off plan. Regardless, TAE shall still remain a subsidiary company of Lanna.