

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the First Quarter 2013)

REVENUES	1 st Quarter 2013		1 st Quarter 2012		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales Revenue from Coal	2,452.37	85.48	2,382.85	87.22	69.52	2.92
Sales Revenue from Ethanol	406.39	14.17	287.77	10.53	118.62	41.22
Other Revenue	10.16	0.35	61.32	2.25	(51.16)	(83.43)
Total Revenues	2,868.92	100.00	2,731.94	100.00	136.98	5.01

REVENUES: The Company's total revenues in the first quarter 2013 totaled Baht 2,868.92 million, which increased from the same period last year by Baht 136.98 million or an increase of 5.01 percent, due to the following reasons.

(1) Revenue from coal business in the first quarter 2013 totaled Baht 2,452.37 million or 85.48 percent of the total revenues, which increased from the same period last year by Baht 69.52 million or an increase of 2.92 percent. This was due to an increase in the coal sales volume of 52.52 percent, but the average coal sales price decreased by 32.52 percent.

(2) Revenue from ethanol business in the first quarter 2013 totaled Baht 406.39 million or 14.17 percent of the total revenues, which increased from the same period last year by Baht 118.62 million or an increase of 41.22 percent. This was due to an increase in ethanol sales volume of 25.30 percent and an increase in the average ethanol sale price of 11.28 percent.

(3) Other revenue in the first quarter 2013 totaled Baht 10.16 million or 0.35 percent of the total revenues, which decreased from the same period last year by Baht 51.16 million or a decrease of 83.43 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.

EXPENSES	1 st Quarter 2013		1 st Quarter 2012		Increase (Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
Coal Business						
Cost of sales	1,539.11	62.76	1,496.34	62.80	42.77	2.86
Selling and administrative expenses	614.20	25.05	458.73	19.25	155.47	33.89
Corporate income tax	88.83	3.62	164.27	6.89	(75.44)	(45.92)
Ethanol Business						
Cost of sales	333.94	82.17	197.35	68.58	136.59	69.21
Selling and administrative expenses	19.85	4.88	12.80	4.45	7.05	55.08
Financial cost	13.15	3.24	7.97	2.77	5.18	64.99

EXPENSES FROM COAL BUSINESS: Expenses from coal business in the first quarter 2013 increased from the same period last year by Baht 122.80 million or an increase of 5.79 percent due to the following reasons.

(1) Cost of coal sales in the first quarter 2013 increased from the same period last year by Baht 42.77 million or an increase of 2.86 percent. This was due to an increase in coal sales volume of 52.52 percent, but the average coal sales cost per ton decreased by 32.56 percent.

(2) Selling and administrative expenses in the first quarter 2013 increased from the same period last year by Baht 155.47 million or an increase of 33.89 percent according to an increase in coal sales volume.

(3) Corporate income tax in the first quarter 2013 decreased from the same period last year by Baht 75.44 million or a decrease of 45.92 percent due to a decrease in net profit.

EXPENSES FROM ETHANOL BUSINESS: Expenses from ethanol business in the first quarter 2013 increased from the same period last year by Baht 148.82 million or an increase of 68.23 percent due to the following reasons.

(1) Cost of ethanol sales in the first quarter 2013 increased from the same period last year by Baht 136.59 million or an increase of 69.21 percent. This was due to an increase in ethanol sales volume of 25.30 percent and an increase in the average ethanol sales cost per liter of 38.12 percent since the price of raw material, molasses, which is a major cost, increased from the same period last year by 45.58 percent.

(2) Selling and administrative expenses in the first quarter 2013 increased from the same period last year by Baht 7.05 million or an increase of 55.08 percent according to an increase in ethanol sales volume.

(3) Financial expenses in the first quarter 2013 increased from the same period last year by Baht 5.18 million or an increase of 64.99 percent due to an increase in loan interest from the construction of ethanol production line no. 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	%
1st Quarter 2013						
Revenues from Sales	2,452.37	100.00	406.39	100.00	2,858.76	100.00
Less Cost of Sales	1,539.11	62.76	333.94	82.17	1,873.05	65.52
Gross Profit	913.26	37.24	72.45	17.83	985.71	34.48
1st Quarter 2012						
Revenues from Sales	2,382.85	100.00	287.77	100.00	2,670.62	100.00
Less Cost of Sales	1,496.34	62.80	197.35	68.58	1,693.69	63.42
Gross Profit	886.51	37.20	90.42	31.42	976.93	36.58

GROSS PROFIT: The Company's overall gross profit in the first quarter 2013 was Baht 985.71 million, or a gross profit margin of 34.48 percent of the sales revenue. When compared with the gross profit of the previous year of Baht 976.93 million or gross profit margin of 36.58 percent of sales revenue, the gross profit margin slightly decreased due to the following reasons.

(1) Gross profit margin from the coal business in the first quarter 2013 was 37.24 percent of the sales revenue, which slightly increased from the same period last year with the gross profit margin of 37.20 percent of the sales revenue.

(2) Gross profit margin from the ethanol business in the first quarter 2013 was 17.83 percent of the sales revenue which decreased from the same period last year with the gross profit margin of 31.42 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	1 st Quarter 2013		1 st Quarter 2012		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	134.54	75.59	153.95	56.63	(19.41)	(12.61)
Profit from Ethanol Business	30.67	17.23	53.14	19.55	(22.47)	(42.28)
Share of income from investment in the associated company and other revenues	12.77	7.18	64.74	23.82	(51.97)	(80.27)
Net Profit	177.98	100.00	271.83	100.00	(93.85)	(34.53)
Net Earnings per Share-Baht per Share	0.51		0.78		(0.27)	(34.53)
Remark: Registered par value of Baht 1 per share						

NET PROFIT: The Company's net profit in the first quarter 2013 was Baht 177.98 million (net earnings of Baht 0.51 per share). When compared with the same period last year with the net profit of Baht 271.83 million (net earnings of Baht 0.78 per share), the net profit decreased by Baht 93.85 million (a decrease of net earnings of Baht 0.27 per share) or a decrease of 34.53 percent due to the following reasons.

(1) Net profit from coal business in the first quarter 2013 was Baht 134.54 million or 75.59 percent of the total net profit, which decreased from the same period last year by Baht 19.41 million or a decrease of 12.61 percent, due to the decrease in average cost of coal sales per ton as described above.

(2) Net profit from ethanol business in the first quarter 2013 was Baht 30.67 million or 17.23 percent of the total net profit, which decreased from the same period last year by Baht 22.47 million or a decrease of 42.28 percent. This was 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 associated company and other revenue in the first quarter 2013 were Baht 12.77 million or 7.18 percent of the total net profit, which decreased from the same period last year by Baht 51.97 million or a decrease of 80.27 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 first quarter 2013 was Baht 423.80 million. When compared with the same period last year with EBITDA of Baht 609.48 million, the EBITDA decreased by Baht 185.68 million or a decrease of 30.47 percent.

(2) The Company's EBITDA margin in the first quarter 2013 was at 14.77 percent of the total revenues. When compared with the same period last year with EBITDA margin at 22.31 percent of the total revenues, it decreased by 7.54 percent.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the first quarter 2013 was 9.19 percent of the total revenues. When compared with the same period last year with the net profit margin of 14.58 percent of the total revenues, the net profit margin decreased by 37.01 percent.

(2) The Company's return on equity (ROE) in the first quarter 2013 was 4.77 percent. When compared with the same period last year with the average return on equity of 8.02 percent, it decreased by 40.48 percent.

(3) The Company's return on total assets and return on fixed assets in the first quarter 2013 were at 3.45 percent and 10.42 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 5.54 percent and 15.23 percent, they decreased by 37.74 percent and 31.62 percent, respectively. The asset turnover ratio was at 0.38 times, which was the same as last year.

CASH FLOWS	(Unit : Million Baht)	
	1 st Quarter 2013	1 st Quarter 2012
Cash Flows from (used in) Operating Activities	72.30	20.07
Cash Flows from (used in) Investing Activities	(120.22)	(137.34)
Cash Flows from (used in) Financing Activities	(128.96)	(142.91)
Translation Adjustments in Financial Statements (Decrease)	(28.68)	(19.73)
Net Increase (Decrease) in Cash	(205.56)	(279.91)
Cash at the beginning of the period	1,152.59	1,212.39
Cash at the end of the period	947.03	932.48

Description	Unit : Million Baht		Increase (Decrease)	
	As at March 31, 2013	As at December 31, 2012	Million Baht	%
Total Assets	7,647.89	7,631.92	15.97	0.21
Total Liabilities	2,943.09	3,074.30	(131.21)	(4.27)
Total Shareholders' Equity	4,704.80	4,557.62	147.18	3.23
Book Value-Baht per Share	10.82	10.48	0.34	3.24
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at March 31, 2013 increased from the end of 2012 by Baht 15.97 million or an increase of 0.21 percent, consisting of:

(1) Current assets decreased from the end of 2012 by Baht 1.47 million or a decrease of 0.04 percent, due to (A) cash and cash equivalent decreased from the end of 2012 by Baht 194.56 million or a decrease of 12.22 percent; (B) trade accounts receivable and other accounts receivable decreased from the end of 2012 by Baht 7.55 million or a decrease of 0.87 percent; (C) inventories increased from the end of 2012 by Baht 78.16 million or an increase of 15.56 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 122.48 million or an increase of 12.32 percent.

(2) Non-current assets increased from the end of 2012 by Baht 17.44 million or an increase of 0.47 percent, due to an increase in property, plants, and equipment.

LIABILITIES: The Company's total liabilities as at March 31, 2013 decreased from the end of 2012 by Baht 131.21 million or a decrease of 4.27 percent, consisting of:

(1) Trade accounts payable and other accounts payable decreased from the end of 2012 by Baht 25.28 million or a decrease of 3.37 percent.

(2) Short term and long term loans decreased from the end of 2012 by Baht 71.00 million or a decrease of 5.76 percent due to loan repayments of subsidiary companies.

(3) Other liabilities besides (1) and (2) decreased from the end of 2012 by Baht 34.93 million or a decrease of 3.20 percent, most of which were due to a decrease in accrued corporate income tax.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at the March 31, 2013 increased from the end of 2012 by Baht 147.18 million or an increase of 3.23 percent, resulting in an increase of the share's book value from Baht 10.48 per share to Baht 10.82 per share. This was due to the increase in net profit of Baht 177.98 million, a decrease in adjustment of retained earnings and translation adjustment in financial statement of Baht 58.41 million, and an increase of minority shareholders' equity of Baht 27.61 million.

CASH FLOWS

(1) The Company's net cash from operating activities in the first quarter 2013 was at Baht 72.30 million, consisting of: (A) income before corporate income tax and interest payment of Baht 351.29 million; (B) transactions that did not affect the cash such as the depreciation and

amortization of assets of Baht 103.11 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 156.58 million due to an increase in inventories; (D) a decrease in operating liabilities of Baht 80.99 million due to a decrease in trade accounts payable and other payables; and (E) an increase in interest income by Baht 3.22 million but there were increases in interest expenses and taxes of Baht 147.75 million.

(2) The Company's net cash used in investment activities in the first quarter 2013 was Baht 120.22 million, consisting of: (A) an increase in property, plants and equipment of Baht 62.20 million; (B) an increase in expenses of coal mine projects of subsidiary company in Indonesia of Baht 15.82 million; and (C) short-term cash deposit and other items which increased by a total of Baht 42.20.

(3) The Company's net cash used in financing activities in the first quarter 2013 was Baht 128.96 million, including (A) a net decrease in loan of Baht 71.00 million, (B) dividend payment of Baht 26.20 million, and (C) a decrease in minority shareholders' equity of Baht 31.76 million.

LIQUIDITY

(1) The Company's current ratio and quick ratio in the first quarter 2013 were at 1.80 times and 1.03 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 quarter 2013 was at 20 days, a decrease from the same period last year of 16 days. The average debt collection period was at 27 days, a decrease from the same period last year of 10 days. The average inventory turnover was at 26 days, an increase from the same period last year of 4 days. However, the average debt payment period was at 33 days, or an increase from the same period last year of 10 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio in the first quarter 2013 was as low as 0.63 to 1. Should the Company require additional funding for project investment in the future, having the interest coverage ratio at the first quarter 2013 at 32.23 times, which is considered a very high ratio. Therefore, the Company should not have any problem concerning with default of interest payment.

OUTLOOK

It is expected that the coal price in the first 6-month period of 2013 will remain low, continuing from the last 6-month period of 2012. In the last 6-month period of 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.