



LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE OPERATING RESULTS OF
THE 1ST QUARTER 2014**

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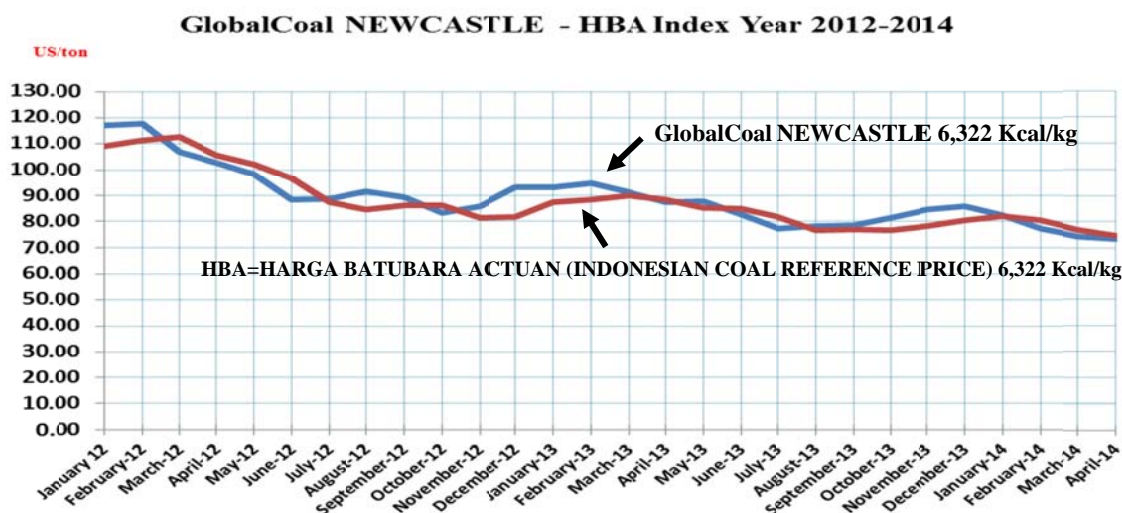
MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 1st Quarter 2014)

OVERALL OPERATING RESULTS

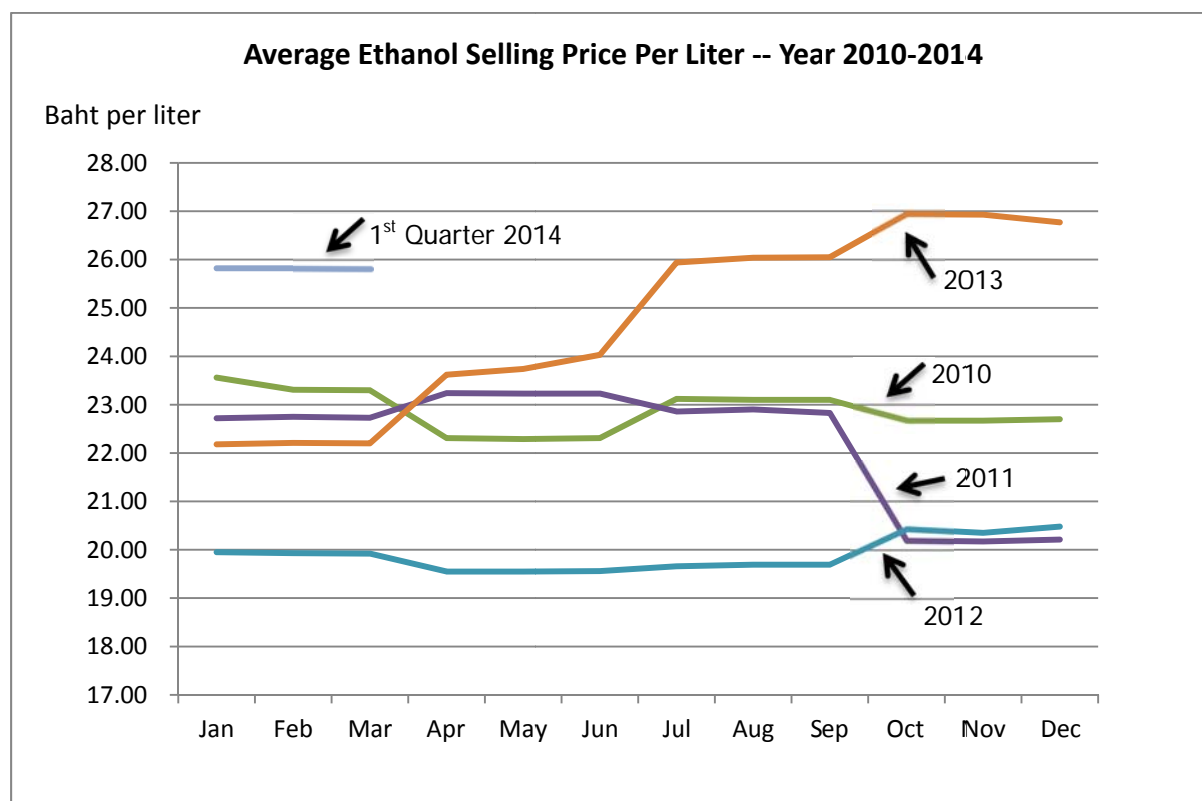
The Company's revenue and net profit in the 1st quarter 2014 were Baht 3,353.89 million and Baht 215.04 million, respectively, which increased from the same period last year by 16.90 and 20.82 percent. Although the revenue from coal business increased, the net profit from coal business decreased due to the continuous decrease of coal price. Meanwhile, the revenue from ethanol business increased due to an increase in the average ethanol selling price in according 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 price 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 1st quarter 2014 was Baht 2,656.89 million, which slightly increased from the same period last year by 8.34 percent due to increases in coal sales volume and average coal selling price by 4.85 and 3.33 percent, respectively. However, the net profit calculated from shareholding proportion of the Company in the 1st quarter 2014 was Baht 66.32 million, which decreased from the same period last year by 50.71 percent. Regardless, despite the lower operating results of the coal business, it remains continuously profitable.

ETHANOL BUSINESS: The average ethanol selling price increased from the same period last year by 16.36 percent. Also, the average domestic demand of ethanol increased from 2.57 million liters per day in late 2013 to 3.03 million liters per day in March 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 and the net profit calculated from shareholding proportion in the 1st quarter 2014 were Baht 631.11 million and Baht 76.48 million, which increased from the same period last year by 55.30 and 149.36 percent, respectively. This was due to an increase in the average ethanol selling price according to the increased ethanol demand as described above.

OPERATING RESULTS ANALYSIS

REVENUES Unit: Million Baht	1 st Quarter 2014		1 st Quarter 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
Revenue from Coal Business	2,656.89	79.22	2,452.37	85.48	204.52	8.34
Revenue from Ethanol Business	631.11	18.82	406.39	14.17	224.72	55.30
Other Revenue	65.89	1.96	10.16	0.35	55.73	548.52
Total Revenues	3,353.89	100.00	2,868.92	100.00	484.97	16.90

REVENUE: The company's total revenue in the 1st quarter 2014 totaled baht 3,353.89 million, which increased from the same period last year by Baht 484.97 million or 16.90 percent due to the following reasons.

(1) Revenue from coal business in the 1st quarter 2014 totaled Baht 2,656.89 million, which increased from the same period last year by Baht 204.52 million or 8.34 percent. This was due to increases in coal sales volume and the average coal selling price of 4.85 and 3.33 percent, respectively.

(2) Revenue from ethanol business in the 1st quarter 2014 totaled Baht 631.11 million, which increased from the same period last year by Baht 224.72 million or 55.30 percent. This was due to increases in ethanol sales volume and the average ethanol selling price by 36.24 and 16.36 percent, respectively.

(3) Other revenue in the 1st quarter 2014 totaled Baht 65.89 million, which increased from the same period last year by Baht 55.73 million or 548.52 percent. This was due to the foreign exchange gain of Baht 58.74 million, compared to the loss of Baht 8.61 million in the same period last year.

EXPENSES Unit: Million Baht	1 st Quarter 2014		1 st Quarter 2013		Increase (Decrease)	
	Baht Million	%	Baht Million	%	Baht Million	%
<u>Coal Business</u>						
Cost of sales	1,726.71	64.99	1,539.11	62.76	187.60	12.19
Selling and administrative expenses	687.30	25.87	614.20	25.05	73.10	11.90
Financial cost	2.00	0.08	0.00	0.00	2.00	N/A
Corporate income tax	97.68	3.68	88.83	3.62	8.85	9.96
<u>Ethanol Business</u>						
Cost of sales	503.97	79.85	333.94	82.17	170.03	50.92
Selling and administrative expenses	10.03	1.59	19.85	4.88	(9.82)	(49.47)
Financial cost	15.41	2.44	13.15	3.24	2.26	17.19

EXPENSES FROM COAL BUSINESS: Expenses from coal business in the 1st quarter 2014 totaled Baht 2,513.69 million, which increased from the same period last year by Baht 271.55 million or 12.11 percent, due to the following reasons.

(1) Cost of coal sales in the 1st quarter 2014 increased from the same period last year by Baht 187.60 million or 12.19 percent. This was due to an increase in coal sales volume of 4.85 percent despite an increase in the average coal selling price per ton of 7.00 percent.

(2) Selling and administrative expenses in the 1st quarter 2014 increased from the same period last year by Baht 73.10 million or 11.90 percent according to the increased coal sales volume.

(3) Financial cost in the 1st quarter 2014 increased from the same period last year by Baht 2.00 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.

(4) Corporate income tax in the 1st quarter 2014 increased from the same period last year by Baht 8.85 million or 9.96 percent.

EXPENSES FROM ETHANOL BUSINESS: Expenses from ethanol business in the 1st quarter 2014 totaled Baht 529.41 million, which increased from the same period last year by 44.28 percent, due to the following reasons.

(1) Cost of ethanol sales in the 1st quarter 2014 increased from the same period last year by Baht 170.03 million or 50.92 percent. This was due to an increase in the average ethanol cost of sales of 13.29 percent thanks to the increase in molasses raw material price, which is a major cost, from the same period last year by 17.10 percent.

(2) Selling and administrative expenses in the 1st quarter 2014 decreased from the same period last year by Baht 9.82 million or 49.47 percent. This was due to the cost of ethanol production line no. 1, which had had a temporary shutdown for repairs and maintenance in the 1st quarter 2013 but had a normal operation in the 1st quarter 2014.

(3) Financial expenses in the 1st quarter 2014 increased from the same period last year by Baht 2.26 million or 17.19 percent due to short term loans engaged as working capital for the purchase of molasses raw material, resulting in an increase in interest expense.

(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	
	Baht Million	%	Baht Million	%	Baht Million	%
1st Quarter 2014						
Revenues from Sales	2,656.89	100.00	631.11	100.00	3,288.00	100.00
Less Cost of Sales	1,726.71	64.99	503.97	79.85	2,230.68	67.84
Gross Profit	930.18	35.01	127.14	20.15	1,057.32	32.16
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

GROSS PROFIT: The Company's gross profit in the 1st quarter 2014 was Baht 1,057.32 million, or gross profit margin of 32.16 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 985.71 million or gross profit margin of 34.48 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1) Gross profit margin from the coal business in the 1st quarter 2014 was 35.01 percent of the sales revenue, which slightly decreased from the same period last year with the gross profit margin of 37.24 percent of the sales revenue.

(2) Gross profit margin from the ethanol business in the 1st quarter 2014 was 20.15 percent of the sales revenue, which increased from the same period last year with the gross profit margin of 17.83 percent of the sales revenue. This was due to the increase in ethanol selling price as described above.

GROSS PROFIT	1 st Quarter 2014		1 st Quarter 2013		Total	
	Baht Million	%	Baht Million	%	Baht Million	%
Profit from Coal Business	66.32	30.84	134.54	75.59	(68.22)	(50.71)
Profit from Ethanol Business	76.48	35.57	30.67	17.23	45.81	149.36
Share of income from investment in associate company and other revenue	72.24	33.59	12.77	7.18	59.47	465.70
Net Profit	215.04	100.00	177.98	100.00	37.06	20.82
Net Earnings per Share - Baht per Share	0.41		0.34		0.07	20.82
Remark: Registered par value of Baht 1 per share						

NET PROFIT: The Company's net profit in the 1st quarter 2014 was Baht 215.04 million, or net earnings of Baht 0.41 per share. When compared with the same period last year, the net profit increased by 20.82 percent due to the following reasons.

(1) Net profit from coal business in the 1st quarter 2014 was Baht 66.32 million or 30.84 percent of the total net profit, which decreased from the same period last year by 50.71 percent, due to the increase in cost of coal sales as described above.

(2) Net profit from ethanol business in the 1st quarter 2014 was Baht 76.48 million or 35.57 percent of the total net profit, which increased from the same period last year by 149.36 percent, due to the increase in the average ethanol selling price per liter as described above.

(3) Net share of income from investment in the associate company and other revenues in the 1st quarter 2014 was Baht 72.24 million or 33.59 percent of the total net profit, which increased from the same period last year by 465.70 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) is Baht 504.09 million, increasing from the same period last year by 18.95 percent due to the increase in profit.

(2) The Company's EBITDA margin is at 15.03 percent of the total revenues, increasing from the same period last year of 14.77 percent by 1.75 percent due to the increase in EBITDA as described in (1) above.

EARNINGS EFFICIENCY

The abovementioned increase in the net profit results in an increase in the earnings efficiency of the Company as follows.

(1) The Company's net profit margin in the 1st quarter 2014 was at 9.44 percent, which increased from the same period last year of 9.19 percent by 2.75 percent.

(2) The Company's return on equity in the 1st quarter 2014 was at 5.24 percent. When compared with the same period last year with the average return on equity of 4.77 percent, it increased by 9.79 percent.

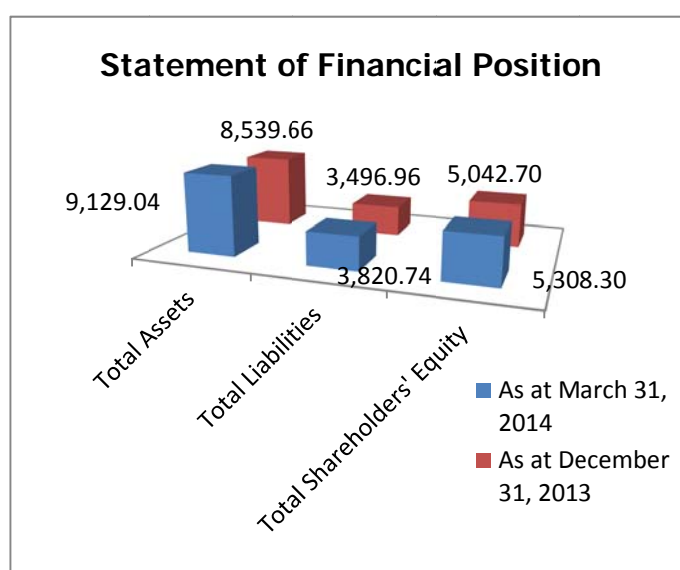
(3) The Company's return on total assets and return on fixed assets in the 1st quarter 2014 were at 3.58 percent and 11.00 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 3.45 percent and 10.42 percent, they increased by 3.88 percent and 5.58 percent, respectively. The asset turnover ratio was at 0.38 times, which was equal to the same period last year.

STATEMENT OF FINANCIAL POSITION

Financial Position	Unit: Million Baht		Increase (Decrease)	
	As at March 31, 2014	As at December 31, 2013	Million Baht	%
Total Assets	9,129.04	8,539.66	589.38	6.90
Total Liabilities	3,820.74	3,496.96	323.78	9.26
Total Shareholders' Equity	5,308.30	5,042.70	265.60	5.27
Book Value-Baht per Share	8.00	7.63	0.37	4.85
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at March 31, 2014 increased from the end of 2013 by Baht 589.38 million or an increase of 6.90 percent, consisting of:

(1) Current assets increased from the end of 2013 by Baht 510.19 million or an increase of 11.55 percent, due to (A) cash and cash equivalent decreased from the end of 2013 by Baht 34.07 million or a decrease of 2.83 percent; (B) trade accounts receivable and other accounts receivable increased from the end of 2013 by Baht 123.16 million or an increase of 14.25 percent; (C) inventories increased from the end of 2013 by Baht 443.21 million or an increase of 102.95 percent, most of which were finished coal and reserved or purchased molasses for the 2nd quarter 2014; and (D) other current assets decreased from the end of 2013 by Baht 22.11 million or a decrease of 1.15 percent.



(2) Non-current assets increased from the end of 2013 by Baht 79.19 million or an increase of 1.92 percent, due to an increase in property, plant, and equipment.

LIABILITIES: The Company's total liabilities as at March 31, 2014 increased from the end of 2013 by Baht 323.78 million or an increase of 9.26 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from the end of 2013 by Baht 313.37 million or an increase of 46.26 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 222.84 million or a decrease of 12.15 percent.

(3) Accrued expenses, most of which are overburden removal expenses, freight cost, etc., increased from the end of 2013 by Baht 210.70 million or an increase of 29.94 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 2013 by Baht 22.55 million or an increase of 8.00 percent.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2014 increased from the end of 2013 by Baht 265.60 million or an increase of 5.27 percent, resulting in an increase of the share's book value from Baht 7.63 per share to Baht 8.00 per share. This was due to an increase in net profit of Baht 215.04 million, a net decrease in translation adjustment in financial statement and other items of Baht 17.54 million, and an increase in minority shareholders' equity of Baht 68.10 million.

CASH FLOWS	Unit : Million Baht	
	1 st Quarter 2014	1 st Quarter 2013
Cash Flows from (used in) Operating Activities	368.57	72.30
Cash Flows from (used in) Investing Activities	(201.12)	(120.22)
Cash Flows from (used in) Financing Activities	(256.26)	(128.96)
Translation Adjustments in Financial Statements	15.62	(28.68)
Net Increase (Decrease) in Cash	(73.19)	(205.56)
Cash at the beginning of the period	822.02	1,152.59
Cash at the end of the period	748.83	947.03

CASH FLOWS

(1) The Company's net cash from operating activities in the 1st quarter 2014 was at Baht 368.57 million, consisting of: (A) income before corporate income tax and interest payment of Baht 414.83 million; (B) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 127.62 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (C) an increase in operating assets of Baht 575.74 million due to an increase in inventories; (D) an increase in operating liabilities of Baht 517.71 million due to an increase in trade accounts payable and other accounts payable; and (E) an increase in interest income by Baht 7.76 million but there were increases in interest expense and taxes of Baht 123.61 million.

(2) The Company's net cash used in investment activities in the 1st quarter 2014 was Baht 201.12 million, consisting of: (A) an increase in property, plant and equipment of Baht 101.23 million, most of which were constructions of molasses storage tanks and a bio-gas power plant; (B) an increase in expenses of coal mine projects of subsidiary companies in Indonesia of Baht 28.22 million; and (C) short-term cash investment and other items which decreased by a total of Baht 71.67 million.

(3) The Company's net cash used in financing activities in the 1st quarter 2014 was Baht 256.26 million, including (A) a net decrease in loan of Baht 222.83 million, (B) dividend payment of Baht 23.03 million, and (C) a decrease in minority shareholders' equity of Baht 10.40 million.

ASSET MANAGEMENT CAPABILITY

(1) The Company's trade accounts receivable and other accounts receivable as at end of 2013 were 10.81 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 1st quarter 2014 and therefore, there was no provision for doubtful debt in the 1st quarter 2014.

(2) Inventory as at end of 2013 was 9.57 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 1st quarter 2014.

(3) Goodwill from investment in the subsidiary company in Indonesia 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 1st quarter 2014.

LIQUIDITY AND SUFFICIENCY OF CAPITAL

(1) The Company's total debt to equity ratio as at March 31, 2014 was as low as 0.72 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 2014 as high as 28.95 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 1st quarter 2014 were at 1.72 times and 0.75 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 the 1st quarter 2014 was at 22 days, an increase from the same period last year by 2 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 26 days, which was equal to the same period last year. However, the average debt payment period was at 29 days or a decrease from the same period last year by 4 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.

(5) As for investment in the ethanol business in 2014, the fourth bio-gas production pond with the production capacity of 72,000 cubic meters per day is being constructed. After its completion, the total bio-gas production capacity will reach 142,000 cubic meters per day, in which bio-gas of 126,000 cubic meters per day will be used as fuel in ethanol production. The rest will be used in the planned 1-megawatt bio-gas power generating system, with investment of about Baht 51 million. The project completion and commencement of power generation are scheduled within the 3rd quarter of 2014. The 2nd phase of 2-megawatt bio-gas power generating system will require Baht 139 million in investment and scheduled to be completed within 2014. The electricity shall be used within the ethanol production plant which shall further reduce cost of ethanol production. Also, there will be constructions of two molasses tanks totaling 20,000 tons in volume capacity, having investment budget of about Baht 60 million, with expected completion in the 2nd quarter 2014, 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 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 the 1st quarter 2014, TAE was 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 load 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 listing on the Stock Exchange of Thailand is expected within the 2nd quarter 2014, which will help TAE in acquiring 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

(1) 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. 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. 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.

(2) The Meeting of the Board of Directors has approved the spin-off plan for the listing of 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 shall 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. The transactions are expected to occur in the 2nd quarter 2014, which will result 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.