

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter 2012
and the First 6-Month Period of 2012)

REVENUES	Year 2012		Year 2011		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April – June)						
Sales Revenue from Coal	3,480.56	88.94	2,923.30	89.69	557.26	19.06
Sales Revenue from Ethanol	418.84	10.70	283.86	8.71	134.98	47.55
Other Revenue	13.83	0.36	52.33	1.60	(38.50)	(73.57)
Total Revenues	3,913.23	100.00	3,259.49	100.00	653.74	20.06
6-Month period (January – June)						
Sales Revenue from Coal	5,863.41	88.27	5,392.55	90.07	470.86	8.73
Sales Revenue from Ethanol	706.61	10.64	514.85	8.60	191.76	37.25
Other Revenue	72.56	1.09	79.60	1.33	(7.04)	(8.84)
Total Revenues	6,642.58	100.00	5,987.00	100.00	655.58	10.95

REVENUES

(1) The Company's total revenues in the 2nd quarter 2012 totaled Baht 3,913.23 million, which increased from the same period last year by Baht 653.74 million or an increase of 20.06 percent, due to the following reasons.

(1.1) Revenue from coal business in the 2nd quarter 2012 totaled Baht 3,480.56 million or 88.94 percent of the total revenues, which increased from the same period last year by Baht 557.26 million or an increase of 19.06 percent. This was due to an increase in coal sales volume from the same period last year by 34.45 percent but the average coal sales price decreased from the same period last year by 11.44 percent.

(1.2) Revenue from ethanol business in the 2nd quarter 2012 totaled Baht 418.84 million or 10.70 percent of the total revenues, which increased from the same period last year by Baht 134.98 million or an increase of 47.55 percent. This was due to an increase in ethanol sales volume from the same period last year by 69.18 percent but the average ethanol sale price decreased by 15.94 percent.

(1.3) Other revenue in the 2nd quarter 2012 totaled Baht 13.83 million or 0.36 percent of the total revenues, which decreased from the same period last year by Baht 38.50 million or a decrease of 73.57 percent. This was due to the dissolution of a subsidiary company, and thus there was no revenue from coal transport, loading port and jetty facilities services in this quarter.

(2) The Company's total revenues in the first 6-month period of 2012 totaled Baht 6,642.58 million, which increased from the same period last year by Baht 655.58 million or an increase of 10.95 percent, due to the following reasons.

(2.1) Revenue from coal business in the first 6-month period of 2012 totaled Baht 5,863.41 million or 88.27 percent of the total revenues, which increased from the same period last year by Baht 470.86 million or an increase of 8.73 percent. This was due to an increase in coal sales volume from the same period last year by 19.63 percent but the average coal sales price decreased from the same period last year by 9.11 percent.

(2.2) Revenue from ethanol business in the first 6-month period of 2012 totaled Baht 706.61 million or 10.64 percent of the total revenues, which increased from the same period last year by Baht 191.76 million or an increase of 37.25 percent. This was due to an increase in ethanol sales volume from the same period last year by 56.51 percent but the average ethanol sale price decreased by 14.45 percent.

(2.3) Other revenue in the first 6-month period of 2012 totaled Baht 72.56 million or 1.09 percent of the total revenues, which decreased from the same period last year by Baht 7.04 million or a decrease of 8.84 percent as described in (1.3) above.

EXPENSES	Year 2012		Year 2011		Increase/(Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
<u>2nd Quarter (April – June)</u>						
<u>Coal Business</u>						
Cost of sales	2,161.71	62.11	1,579.56	54.03	582.15	36.86
Selling and administrative expenses	684.80	19.67	610.59	20.89	74.21	12.15
Financial cost	0.10	0.00	0.50	0.02	(0.40)	(80.00)
Corporate income tax	203.66	5.85	269.75	9.23	(66.09)	(24.50)
<u>Ethanol Business</u>						
Cost of sales	309.11	73.80	259.46	91.40	49.65	19.14
Selling and administrative expenses	8.46	2.02	15.84	5.58	(7.38)	(46.59)
Financial cost	15.96	3.81	7.60	2.68	8.36	110.00
<u>6-Month Period (January – June)</u>						
<u>Coal Business</u>						
Cost of sales	3,658.04	62.39	2,868.73	53.20	789.31	27.51
Selling and administrative expenses	1,140.87	19.46	1,124.09	20.85	16.78	1.49
Financial cost	0.18	0.00	0.78	0.01	(0.60)	(76.92)
Corporate income tax	367.52	6.27	477.98	8.86	(110.46)	(23.11)
<u>Ethanol Business</u>						
Cost of sales	506.47	71.68	485.83	94.36	20.64	4.25
Selling and administrative expenses	21.25	3.01	25.39	4.93	(4.14)	(16.31)
Financial cost	23.93	3.39	11.00	2.14	12.93	117.55

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 2nd quarter 2012 increased from the same period last year by Baht 589.87 million or an increase of 23.97 percent due to the following reasons.

(1.1) Cost of coal sales in the 2nd quarter 2012 increased from the same period last year by Baht 582.15 million or an increase of 36.86 percent. This was due to the increase in coal sales volume and average cost of sales per ton by 34.45 percent and 1.79 percent, respectively.

(1.2) Selling and administrative expenses in the 2nd quarter 2012 increased from the same period last year by Baht 74.21 million or an increase of 12.15 percent, in line with the increase in revenue.

(1.3) Financial cost in the 2nd quarter 2012 decreased from the same period last year by Baht 0.40 million or a decrease of 80.00 percent as there was no loan used in the coal business.

(1.4) Corporate income tax in the 2nd quarter 2012 decreased from the same period last year by Baht 66.09 million or a decrease of 24.50 percent.

(2) Expenses from coal business in the first 6-month period of 2012 increased from the same period last year by Baht 695.03 million or an increase of 15.54 percent due to the following reasons.

(2.1) Cost of coal sales in the first 6-month period of 2012 increased from the same period last year by Baht 789.31 million or an increase of 27.51 percent. This was due to the increase in coal sales volume and average cost of sales per ton by 19.63 percent and 6.59 percent, respectively.

(2.2) Selling and administrative expenses in the first 6-month period of 2012 increased from the same period last year by Baht 16.78 million or an increase of 1.49 percent, in line with the increase in revenue.

(2.3) Financial cost in the first 6-month period of 2012 decreased from the same period last year by Baht 0.60 million or a decrease of 76.92 percent as there was no loan used in the coal business.

(2.4) Corporate income tax in the first 6-month period of 2012 decreased from the same period last year by Baht 110.46 million or a decrease of 23.11 percent.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 2nd quarter 2012 increased from the same period last year by Baht 50.63 million or an increase of 17.90 percent due to the following reasons.

(1.1) Cost of ethanol sales in the 2nd quarter 2012 increased from the same period last year by Baht 49.65 million or an increase of 19.14 percent. This was due to the increase in ethanol sales volume of 69.18 percent but the average sales cost of ethanol per liter was lower than that of the same period last year by 34.73 percent due to the lower price of raw material, molasses, which is a major cost, as compared to the same period last year by 42.16 percent.

(1.2) Selling and administrative expenses in the 2nd quarter 2012 decreased from same period last year by Baht 7.38 million or a decrease of 46.59 percent.

(1.3) Financial expenses in the 2nd quarter 2012 increased from the same period last year by Baht 8.36 million or an increase of 110.00 percent due to an increase in loan interest of the construction of ethanol production line no. 2 already in operation.

(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 6-month period of 2012 increased from the same period last year by Baht 29.43 million or an increase of 5.64 percent due to the following reasons.

(2.1) Cost of ethanol sales in the first 6-month period of 2012 increased from the same period last year by Baht 20.64 million or an increase of 4.25 percent due to the increase in ethanol sales volume of 56.51 percent but the average sales cost of ethanol per liter was lower than that of the same period last year by 34.33 percent due to the lower price of raw material, molasses, which is the major cost, as compared to the same period last year by 45.49 percent.

(2.2) Selling and administrative expenses in the first 6-month period of 2012 decreased from same period last year by Baht 4.14 million or a decrease of 16.31 percent.

(2.3) Financial expenses in the in the first 6-month period of 2012 increased from the same period last year by Baht 12.93 million or an increase of 117.55 percent due to the increase in loan interest as described in (1.3) above.

(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	%
2nd Quarter (April – June)						
<u>Year 2012</u>						
Revenues from Sales	3,480.56	100.00	418.84	100.00	3,899.40	100.00
Less Cost of Sales	2,161.71	62.11	309.11	73.80	2,470.82	63.36
Gross Profit	1,318.85	37.89	109.73	26.20	1,428.58	36.64
<u>Year 2011</u>						
Revenues from Sales	2,923.30	100.00	283.86	100.00	3,207.16	100.00
Less Cost of Sales	1,579.56	54.03	259.46	91.40	1,839.02	57.34
Gross Profit	1,343.74	45.97	24.40	8.60	1,368.14	42.66
6-Month period (January – June)						
<u>Year 2012</u>						
Sales Revenues	5,863.41	100.00	706.61	100.00	6,570.02	100.00
Less Cost of Sales	3,658.04	62.39	506.47	71.68	4,164.51	63.39
Gross Profit	2,205.37	37.61	200.14	28.32	2,405.51	36.61
<u>Year 2011</u>						
Revenues from Sales	5,392.55	100.00	514.85	100.00	5,907.40	100.00
Less Cost of Sales	2,868.73	53.20	485.83	94.36	3,354.56	56.79
Gross Profit	2,523.82	46.80	29.02	5.64	2,552.84	43.21

GROSS PROFIT

(1) The Company's overall gross profit in the 2nd quarter 2012 was Baht 1,428.58 million, or a gross profit margin of 36.64 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,368.14 million or gross profit margin of 42.66 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 2nd quarter 2012 was 37.89 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 45.97 percent of the sales revenue. This was due to the fact that the average coal selling price per ton decreased while the average cost of coal sales per ton increased as described above.

(1.2) Gross profit margin from the ethanol business in the 2nd quarter 2012 was 26.20 percent of the sales revenue which increased from the same period last year with the gross profit margin of 8.60 percent due to the decrease in the price of raw material, molasses, which is considered a major cost as described above.

(2) The Company's overall gross profit in the first 6-month period of 2012 was Baht 2,405.51 million, or a gross profit margin of 36.61 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 2,552.84 million or gross profit margin of 43.21 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 6-month period of 2012 was 37.61 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 46.80 percent of the sales revenue. This was due to the fact that the average coal selling price per ton decreased while the average cost of coal sales per ton increased as described above.

(2.2) Gross profit margin from the ethanol business in the first 6-month period of 2012 was 28.32 percent of the sales revenue which increased from the same period last year with the gross profit margin of only 5.64 percent due to the decrease in the price of raw material, molasses, which is considered a major cost as described above.

NET PROFIT	Year 2012		Year 2011		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
<u>2nd Quarter (April – June)</u>						
Profit from Coal Business	262.05	76.04	243.80	81.68	18.25	7.49
Profit from Ethanol Business	64.55	18.73	0.72	0.24	63.83	8,865.28
Share of income from investment in the associate company and other revenues	18.04	5.23	53.96	18.08	(35.92)	(66.57)
Net Profit	344.64	100.00	298.48	100.00	46.16	15.47
Net Earnings per Share-Baht per Share	0.98		0.85		0.13	15.47
<u>6-Month period (January – June)</u>						
Profit from Coal Business	419.00	67.97	515.85	87.16	(96.85)	(18.77)
Profit (Loss) from Ethanol Business	117.30	19.03	(5.70)	(0.96)	123.00	2,157.89
Share of income from investment in the associate company and other revenues	80.18	13.00	81.69	13.80	(1.51)	(1.85)
Net Profit	616.48	100.00	591.84	100.00	24.64	4.16
Net Earnings per Share-Baht per Share	1.76		1.69		0.07	4.16
Remark: Registered par value of Baht 1 per share						

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2012 was Baht 344.64 million (net earnings of Baht 0.98 per share). When compared with the same period last year with the net profit of Baht 298.48 million (net earnings per share of Baht 0.85), the net profit increased by Baht 46.16 million (an increase of net earnings per share of Baht 0.13) or an increase of 15.47 percent due to the following reasons.

(1.1) Net profit from coal business in the 2nd quarter 2012 was Baht 262.05 million or 76.04 percent of the total net profit, which increased from the same period last year by Baht 18.25 million or an increase of 7.49 percent, due to the average cost of coal sales per ton increased as described above.

(1.2) Net profit from ethanol business in the 2nd quarter 2012 was Baht 64.55 million or 18.73 percent of the total net profit, which increased from the same period last year by Baht 63.83 million or an increase of 8,865.28 percent, due to the increase in ethanol sales volume and a decrease in ethanol sales cost due to the decrease in price of raw material, molasses, which is a major cost, as described above.

(1.3) Net share of income from investment in the associated companies and other revenue in the 2nd quarter 2012 were Baht 18.04 million or 5.23 percent of the total net profit, which decreased from the same period last year by Baht 35.92 million or a decrease of 66.57 percent, due to no revenue from coal transport, loading port and jetty services as described above.

(2) The Company's net profit in the first 6-month period of 2012 was Baht 616.48 million (net earnings of Baht 1.76 per share). When compared with the same period last year with the net profit of Baht 591.84 million (net earnings per share of Baht 1.69), the net profit increased by Baht 24.64 million (an increase of net earnings per share of Baht 0.07) or an increase of 4.16 percent due to the following reasons.

(2.1) Net profit from the coal business in the first 6-month period of 2012 was Baht 419.00 million or 67.97 percent of the total net profit, which decreased from the same period last year by Baht 96.85 million or a decrease of 18.77 percent, due to the decrease in an average of coal selling price per ton while the average cost of coal sales per ton increased as described above.

(2.2) Net profit from the ethanol business in the first 6-month period of 2012 was Baht 117.30 million or 19.03 percent of the total net profit, which increased from the same period last year by Baht 123.00 million or an increase of 2,157.89 percent, due to the increase in ethanol sales volume and a decrease of ethanol sales cost due to the decrease in price of raw material, molasses, which is a major cost as described above.

(2.3) Net share of income from investment in associated companies and other revenue in the first 6-month period of 2012 were Baht 80.18 million or 13.00 percent of the total net profit, which decreased from the same period last year by Baht 1.51 million or a decrease of 1.85.

EBITDA and EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization in the first 6-month period of 2012 was Baht 1,422.12 million. When compared with the same period last year with EBITDA of Baht 1,590.90 million, the EBITDA decreased by Baht 168.78 million.

(2) The Company's EBITDA margin in the first 6-month period of 2012 was at 21.41 percent of the total revenues. When compared with the same period last year with EBITDA margin at 26.57 percent of the total revenues, it decreased by 19.43 percent.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the first 6-month period of 2012 was 14.03 percent of the total revenues. When compared with the same period last year with the net profit margin of 16.62 percent of the total revenues, the net profit margin decreased by 15.61 percent.

(2) The Company's average return on equity in the first 6-month period of 2012 was 18.10 percent. When compared with the same period last year with the average return on equity of 20.81 percent, it decreased by 13.04 percent.

(3) The Company's return on total assets and return on fixed assets in the first 6-month period of 2012 were at 12.80 percent and 35.51 percent. When compared with the same period last year with the return on total assets and return on fixed assets of 15.26 percent and 40.93 percent, they decreased by 16.10 percent and 13.26 percent, respectively. The asset turnover ratio was at 0.91 times, which was slightly lower than that of the same period last year with the asset turnover ratio of 0.92 times.

Description	Million Baht		Increase/(Decrease)	
	As at June 30, 2012	As at December 31, 2011	Million Baht	%
Total Assets	7,338.72	7,217.57	121.15	1.68
Total Liabilities	2,896.54	3,138.87	(242.33)	(7.72)
Total Shareholders' Equity	4,442.18	4,078.70	363.48	8.91
Book Value-Baht per Share	10.12	9.35	0.78	8.30
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at June 30, 2012 increased from the end of 2011 by Baht 121.15 million or an increase of 1.68 percent, consisting of:

(1) Current assets decreased from the end of 2011 by Baht 16.32 million or a decrease of 0.44 percent, due to the following reasons.

(1.1) Cash and cash equivalent decreased from the end of 2011 by Baht 79.05 million or a decrease of 6.52 percent.

(1.2) Accounts receivable and other debtors decreased from the end of 2011 by Baht 202.32 million or a decrease of 16.89 percent.

(1.3) Inventories increased from the end of 2011 by Baht 317.43 million or an increase of 116.81 percent due to an increase in coal stockpile.

(1.4) Other current assets decreased from the end of 2011 by Baht 52.38 million or a decrease of 5.02 percent due to a decrease in advance payment for coal purchase.

(2) Non-current assets increased from the end of 2011 by Baht 137.47 million or an increase of 3.94 percent, most of which were the cost of development of coal mine project of subsidiary company in Indonesia.

LIABILITIES: The Company's total liabilities as at June 30, 2012 decreased from the end of 2011 by Baht 242.33 million or a decrease of 7.72 percent, consisting of:

(1) Current liabilities decreased from the end of 2011 by Baht 886.30 million or a decrease of 29.38 percent, due to the following reasons.

(1.1) Trade accounts payable and other creditors increased from the end of 2011 by Baht 239.45 million or an increase of 63.42 percent.

(1.2) Short term and long term loans with payment due within one year decreased from the end of 2011 by Baht 760.00 million or a decrease of 51.95 percent. This was due to the restructuring of long term loan of subsidiary company that is not mature within one year into long term debt since the bank (lender) waived the criteria of maintaining financial ratio as specified in the long term loan agreement.

(1.3) Other current liabilities decreased from the end of 2011 by Baht 365.75 million or a decrease of 31.11 percent due to a decrease in accrued corporate income tax.

(2) Non-current liabilities increased from the end of 2011 by Baht 643.97 million or an increase of 525.48 percent according to the reason described in (1.2) above.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at June 30, 2012 increased from the end of 2011 by Baht 363.48 million or an increase of 8.91 percent, resulting in an increase of the share's book value from Baht 9.35 per share to Baht 10.12 per share. This was due to the increase in net profit of Baht 616.48 million, dividend payment of Baht 350.00 million, the increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 4.94 million, and the increase of minority shareholders' equity of Baht 92.06 million.

CASH FLOWS (Unit : Million Baht)	The First 6-Month Period (January – June)	
	Year 2012	Year 2011
Cash Flows from (used in) Operating Activities	853.18	765.51
Cash Flows from (used in) Investing Activities	(230.71)	(361.32)
Cash Flows from (used in) Financing Activities	(703.39)	(142.09)
Translation Adjustments in Financial Statements	1.87	29.13
Net Increase (Decrease) in Cash	(79.05)	291.23
Cash at the beginning of the period	1,212.39	829.22
Cash at the end of the period	1,133.34	1,120.45

CASH FLOWS

● The Company's net cash from operating activities in the first 6-month period of 2012 was at Baht 853.18 million, consisting of: (1) income before corporate income tax and interest payment of Baht 1,299.47 million; (2) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 122.74 million, most of which were the transactions concerning coal mining operations of the subsidiary companies in Indonesia; (3) operating assets increased by Baht 69.51 million due to the increase in inventories; (4) operating liabilities increased by Baht 221.61 million due to an increase in trade accounts payable and other payables; and (5) interest income increased by Baht 8.01 million but with an increase in interest expenses and taxes of Baht 729.14 million.

● The Company's net cash used in investment activities in the first 6-month period of 2012 was Baht 237.71 million, consisting of: (1) property plant and equipment of Baht 168.30 million, most of which was the construction of ethanol production line no. 2 of subsidiary company; (2) expenses of coal mine projects of subsidiary company in Indonesia, which increased by Baht 82.29 million; and (3) cash deposit which increased by Baht 12.19 million and dividend received from the associated company in Singapore of Baht 7.69 million.

● The Company's net cash used in financing activities in the first 6-month period of 2012 was Baht 703.39 million, including the net decrease in loan of Baht 130.00 million, dividend payment of Baht 579.30 million and the increase in minority shareholders equity of Baht 5.91 million.

LIQUIDITY

(1) The Company's current ratio and quick ratio as at June 30, 2012 at 1.74 times and 0.99 times, respectively. Moreover, 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 6-month period of 2012 was at 29 days, a decrease from the same period last year by 4 day. The average debt collection period was at 30 days, an increase from the same period last year by 2 days. The average inventory turnover was at 19 days, a decrease from the same period last year by 8 days but the average debt payment period was at 20 days, or a decrease from the same period last year by 2 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio as at June 30, 2012 was as low as 0.65 to 1. Therefore, the Company's borrowing capacity remains high should additional funding be required for project investment in the future, having the interest coverage ratio in the first 6-month period of 2012 at 58.98 times, which was considered quite high ratio and therefore should have no problem concerning with default of interest payment.