

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3rd Quarter 2012
and the First 9-Month Period of 2012)

REVENUES	Year 2012		Year 2011		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
<u>3rd Quarter (July-September)</u>						
Sales Revenue from Coal	2,605.69	87.26	3,104.78	89.11	(499.09)	(16.07)
Sales Revenue from Ethanol	373.90	12.52	328.29	9.42	45.61	13.89
Other Revenue	6.68	0.22	50.96	1.47	(44.28)	(86.89)
Total Revenues	2,986.27	100.00	3,484.03	100.00	(497.76)	(14.29)
<u>9-Month Period (January-September)</u>						
Sales Revenue from Coal	8,469.10	87.97	8,497.34	89.73	(28.24)	(0.33)
Sales Revenue from Ethanol	1,080.51	11.22	843.13	8.90	237.38	28.15
Other Revenue	77.46	0.81	129.70	1.37	(52.24)	(40.28)
Total Revenues	9,627.07	100.00	9,470.17	100.00	156.90	1.66

REVENUES

(1) The Company's total revenues in the 3rd quarter 2012 totaled Baht 2,986.27 million, which decreased from the same period last year by Baht 497.76 million or a decrease of 14.29 percent, due to the following reasons.

(1.1) Revenue from coal business in the 3rd quarter 2012 totaled Baht 2,605.69 million or 87.26 percent of the total revenues, which decreased from the same period last year by Baht 499.09 million or a decrease of 16.07 percent. This was due to a decrease in the average coal sales price from the same period last year by 28.25 percent despite an increase in coal sales volume from the same period last year by 16.97 percent.

(1.2) Revenue from ethanol business in the 3rd quarter 2012 totaled Baht 373.90 million or 12.52 percent of the total revenues, which increased from the same period last year by Baht 45.61 million or an increase of 13.89 percent. This was due to an increase in ethanol sales volume from the same period last year by 58.36 percent but the average ethanol sale price decreased by 14.02 percent.

(1.3) Other revenue in the 3rd quarter 2012 totaled Baht 6.68 million or 0.22 percent of the total revenues, which decreased from the same period last year by Baht 44.28 million or a decrease of 86.89 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 9-month period of 2012 totaled Baht 9,627.07 million, which increased from the same period last year by Baht 156.90 million or an increase of 1.66 percent, due to the following reasons.

(2.1) Revenue from coal business in the first 9-month period of 2012 totaled Baht 8,469.10 million or 87.97 percent of the total revenues, which decreased from the same period last year by Baht 28.24 million or a decrease of 0.33 percent. This was due to a decrease in the average coal sales price from the same period last year by 16.00 percent despite an increase in coal sales volume from the same period last year by 18.65 percent.

(2.2) Revenue from ethanol business in the first 9-month period of 2012 totaled Baht 1,080.51 million or 11.22 percent of the total revenues, which increased from the same period last year by Baht 237.38 million or an increase of 28.15 percent. This was due to an increase in ethanol sales volume from the same period last year by 57.16 percent but the average ethanol sale price decreased by 14.02 percent.

(2.3) Other revenue in the first 9-month period of 2012 totaled Baht 77.46 million or 0.81 percent of the total revenues, which decreased from the same period last year by Baht 52.24 million or a decrease of 40.28 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>3rd Quarter (July-September)</u>						
<u>Coal Business</u>						
Cost of sales	1,706.70	66.50	1,805.17	58.14	(98.47)	(5.45)
Selling and administrative expenses	644.43	24.73	650.05	20.94	(5.62)	(0.86)
Financial cost	0.24	0.01	0.85	0.03	(0.61)	(71.76)
Corporate income tax	79.62	3.06	229.54	7.39	(149.92)	(65.31)
<u>Ethanol Business</u>						
Cost of sales	316.04	84.53	329.85	100.48	(13.81)	(4.19)
Selling and administrative expenses	15.43	4.13	13.64	4.15	1.79	13.12
Financial cost	15.07	4.03	8.29	2.53	6.78	81.79
<u>9-Month Period (January – September)</u>						
<u>Coal Business</u>						
Cost of sales	5,364.74	63.34	4,673.92	55.00	690.82	14.78
Selling and administrative expenses	1,783.52	21.06	1,773.27	20.87	10.25	0.58
Financial cost	0.42	0.00	1.63	0.02	(1.21)	(74.23)
Corporate income tax	447.15	5.28	707.53	8.33	(260.38)	(36.80)
<u>Ethanol Business</u>						
Cost of sales	822.51	76.12	815.67	96.74	6.84	0.84
Selling and administrative expenses	36.68	3.39	39.03	4.63	(2.35)	(6.02)
Financial cost	39.00	3.61	19.29	2.29	19.71	102.18

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 3rd quarter 2012 decreased from the same period last year by Baht 254.62 million or a decrease of 9.48 percent due to the following reasons.

(1.1) Cost of coal sales in the 3rd quarter 2012 decreased from the same period last year by Baht 98.47 million or a decrease of 5.45 percent. This was due to the decrease in average cost of sales per ton by 19.17 percent.

(1.2) Selling and administrative expenses in the 3rd quarter 2012 decreased from the same period last year by Baht 5.62 million or a decrease of 0.86 percent.

(1.3) Financial cost in the 3rd quarter 2012 decreased from the same period last year by Baht 0.61 million or a decrease of 71.76 percent as there was no loan used in the coal business.

(1.4) Corporate income tax in the 3rd quarter 2012 decreased from the same period last year by Baht 149.92 million or a decrease of 65.31 percent due to the decrease in net profit.

(2) Expenses from coal business in the first 9-month period of 2012 increased from the same period last year by Baht 439.48 million or an increase of 6.14 percent due to the following reasons.

(2.1) Cost of coal sales in the first 9-month period of 2012 increased from the same period last year by Baht 690.82 million or an increase of 14.78 percent. This was due to the increase in coal sales volume by 18.65 percent even though the average cost of sales per ton decreased by 3.26 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2012 increased from the same period last year by Baht 10.25 million or an increase of 0.58 percent.

(2.3) Financial cost in the first 9-month period of 2012 decreased from the same period last year by Baht 1.21 million or a decrease of 74.23 percent as there was no loan used in the coal business.

(2.4) Corporate income tax in the first 9-month period of 2012 decreased from the same period last year by Baht 260.38 million or a decrease of 36.80 percent due to the decrease in net profit.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 3rd quarter 2012 decreased from the same period last year by Baht 5.24 million or a decrease of 1.49 percent due to the following reasons.

(1.1) Cost of ethanol sales in the 3rd quarter 2012 decreased from the same period last year by Baht 13.81 million or a decrease of 4.19 percent. This was due to the increase in ethanol sales volume of 58.36 percent but the average sales cost of ethanol per liter was lower than the same period last year by 21.83 percent due to a lower price of raw material, molasses, which is a major cost, as compared to the same period last year by 22.58 percent.

(1.2) Selling and administrative expenses in the 3rd quarter 2012 increased from same period last year by Baht 1.79 million or an increase of 13.12 percent.

(1.3) Financial expenses in the 3rd quarter 2012 increased from the same period last year by Baht 6.78 million or an increase of 81.79 percent due to an increase in loan interest of the construction of ethanol production line no. 2, which has already been 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 9-month period of 2012 increased from the same period last year by Baht 24.20 million or an increase of 2.77 percent due to the following reasons.

(2.1) Cost of ethanol sales in the first 9-month period of 2012 increased from the same period last year by Baht 6.84 million or an increase of 0.84 percent due to the increase in ethanol sales volume of 57.16 percent but the average sales cost of ethanol per liter was lower than the same period last year by 29.88 percent due to a lower price of raw material, molasses, which is the major cost, as compared to the same period last year by 37.58 percent.

(2.2) Selling and administrative expenses in the first 9-month period of 2012 decreased from same period last year by Baht 2.35 million or a decrease of 6.02 percent.

(2.3) Financial expenses in the in the first 9-month period of 2012 increased from the same period last year by Baht 19.71 million or an increase of 102.18 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	%
3rd Quarter (July-September)						
Year 2012						
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
Year 2011						
Revenues from Sales	3,104.78	100.00	328.29	100.00	3,433.07	100.00
Less Cost of Sales	1,805.17	58.14	329.85	100.48	2,135.02	62.19
Gross Profit	1,299.60	41.86	(1.56)	(0.48)	1,298.05	37.81
9-Month Period (January-September)						
Year 2012						
Sales Revenues	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
Year 2011						
Revenues from Sales	8,497.34	100.00	843.13	100.00	9,340.47	100.00
Less Cost of Sales	4,673.92	55.00	815.67	96.74	5,489.59	58.77
Gross Profit	3,823.42	45.00	27.46	3.26	3,850.88	41.23

GROSS PROFIT

(1) The Company's overall gross profit in the 3rd quarter 2012 was Baht 956.85 million, or a gross profit margin of 32.11 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 1,298.05 million or gross profit margin of 37.81 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 2012 was 34.50 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 41.86 percent of the sales revenue. This was due to the decrease in average coal selling price per ton as described above.

(1.2) Gross profit margin from the ethanol business in the 3rd quarter 2012 was 15.47 percent of the sales revenue which increased from the same period last year 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 9-month period of 2012 was Baht 3,362.36 million, or a gross profit margin of 35.21 percent of the sales revenue. When compared with the gross profit of the same period last year of Baht 3,850.88 million or gross profit margin of 41.23 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 9-month period of 2012 was 36.66 percent of the sales revenue, which decreased from the same period last year with the gross profit margin of 45.00 percent of the sales revenue. This was due to the decrease in average coal selling price per ton as described above.

(2.2) Gross profit margin from the ethanol business in the first 9-month period of 2012 was 23.88 percent of the sales revenue which increased from the same period last year with the gross profit margin of only 3.26 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	%
3rd Quarter (July-September)						
Profit from Coal Business	125.41	79.15	231.66	86.90	(106.25)	(45.86)
Profit from Ethanol Business	20.62	13.01	(17.81)	(6.68)	38.43	215.78
Share of income from investment in the associate company and other revenues	12.42	7.84	52.72	19.78	(40.30)	(76.44)
Net Profit	158.45	100.00	266.57	100.00	(108.12)	(40.56)
Net Earnings per Share-Baht per Share	0.45		0.76		(0.31)	(40.56)
9-Month Period (January-September)						
Profit from Coal Business	546.18	70.48	748.36	87.18	(202.18)	(27.02)
Profit (Loss) from Ethanol Business	137.92	17.80	(23.51)	(2.74)	161.43	686.64
Share of income from investment in the associate company and other revenues	90.83	11.72	133.56	15.56	(42.73)	(31.99)
Net Profit	774.93	100.00	858.41	100.00	(83.48)	(9.72)
Net Earnings per Share-Baht per Share	2.21		2.45		(0.24)	(9.72)
Remark: Registered par value of Baht 1 per share						

NET PROFIT

(1) The Company's net profit in the 3rd quarter 2012 was Baht 158.45 million (net earnings of Baht 0.45 per share). When compared with the same period last year with the net profit of Baht 266.57 million (net earnings per share of Baht 0.76), the net profit decreased by Baht 108.12 million (a decrease of net earnings per share of Baht 0.31) or a decrease of 40.56 percent due to the following reasons.

(1.1) Net profit from coal business in the 3rd quarter 2012 was Baht 125.41 million or 79.15 percent of the total net profit, which decreased from the same period last year by Baht 106.25 million or a decrease of 45.86 percent, due to the decrease in average cost of coal sales per ton as described above.

(1.2) Net profit from ethanol business in the 3rd quarter 2012 was Baht 20.62 million or 13.01 percent of the total net profit, which increased from the same period last year by Baht 38.43 million or an increase of 215.78 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 3rd quarter 2012 were Baht 12.42 million or 7.84 percent of the total net profit, which decreased from the same period last year by Baht 40.30 million or a decrease of 76.44 percent, as there was no revenue from coal transport, loading port and jetty services as described above.

(2) The Company's net profit in the first 9-month period of 2012 was Baht 774.93 million (net earnings of Baht 2.21 per share). When compared with the same period last year with the net profit of Baht 858.41 million (net earnings per share of Baht 2.45), the net profit decreased by Baht 83.48 million (a decrease of net earnings per share of Baht 0.24) or a decrease of 9.72 percent due to the following reasons.

(2.1) Net profit from the coal business in the first 9-month period of 2012 was Baht 546.18 million or 70.48 percent of the total net profit, which decreased from the same period last year by Baht 202.18 million or a decrease of 27.02 percent, due to the decrease in average coal sales price per ton as described above.

(2.2) Net profit from the ethanol business in the first 9-month period of 2012 was Baht 137.92 million or 17.80 percent of the total net profit, which increased from the same period last year by Baht 161.43 million or an increase of 686.64 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 9-month period of 2012 were Baht 90.83 million or 11.72 percent of the total net profit, which decreased from the same period last year by Baht 42.73 million or a decrease of 31.99.

EBITDA and EBITDA MARGIN

(1) The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2012 was Baht 1,801.79 million. When compared with the same period last year with EBITDA of Baht 2,342.97 million, the EBITDA decreased by Baht 541.18 million.

(2) The Company's EBITDA margin in the first 9-month period of 2012 was at 18.72 percent of the total revenues. When compared with the same period last year with EBITDA margin at 24.74 percent of the total revenues, it decreased by 24.35 percent.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the first 9-month period of 2012 was 11.91 percent of the total revenues. When compared with the same period last year with the net profit margin of 15.24 percent of the total revenues, the net profit margin decreased by 21.89 percent.

(2) The Company's return on equity (ROE) in the first 9-month period of 2012 was 22.37 percent. When compared with the same period last year with the average return on equity of 28.76 percent, it decreased by 22.22 percent.

(3) The Company's return on total assets and return on fixed assets in the first 9-month period of 2012 were at 15.64 percent and 44.67 percent, respectively. When compared with the same period last year with the return on total assets and return on fixed assets of 21.16 percent and 59.02 percent, they decreased by 26.11 percent and 24.32 percent, respectively. The asset turnover ratio was at 1.31 times, which was slightly lower than that of the same period last year with the asset turnover ratio of 1.39 times.

Description	Unit : Million Baht		Increase/(Decrease)	
	As at September 30, 2012	As at December 31, 2011	Million Baht	%
Total Assets	7,445.84	7,217.57	228.27	3.16
Total Liabilities	2,878.18	3,138.87	(260.69)	(8.31)
Total Shareholders' Equity	4,567.66	4,078.70	488.96	11.99
Book Value-Baht per Share	10.45	9.35	1.10	11.81
Remark: Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at September 30, 2012 increased from the end of 2011 by Baht 228.27 million or an increase of 3.16 percent, consisting of:

(1) Current assets increased from the end of 2011 by Baht 119.83 million or an increase of 3.26 percent, due to the following reasons.

(1.1) Cash and cash equivalent decreased from the end of 2011 by Baht 355.48 million or a decrease of 29.32 percent.

(1.2) Trade accounts receivable and other accounts receivable decreased from the end of 2011 by Baht 225.05 million or a decrease of 18.79 percent.

(1.3) Inventories increased from the end of 2011 by Baht 454.83 million or an increase of 167.37 percent due to an increase in coal stockpile.

(1.4) Other current assets increased from the end of 2011 by Baht 245.53 million or an increase of 23.54 percent due to the increase in value added tax refundable and advance corporate income tax.

(2) Non-current assets increased from the end of 2011 by Baht 108.44 million or an increase of 3.10 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 September 30, 2012 decreased from the end of 2011 by Baht 260.69 million or a decrease of 8.31 percent, consisting of:

(1) Trade accounts payable and other accounts payable increased from the end of 2011 by Baht 279.43 million or an increase of 74 percent.

(2) Short term and long term loans with payment due within one year decreased from the end of 2011 by Baht 200 million or a decrease of 13.67 percent.

(3) Other liabilities decreased from the end of 2011 by Baht 181.26 million or a decrease of 13.96 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 September 30, 2012 increased from the end of 2011 by Baht 488.96 million or an increase of 11.99 percent, resulting in an increase of the share's book value from Baht 9.35 per share to Baht 10.45 per share. This was due to the increase in net profit of Baht 774.93 million, dividend payment of Baht 350.00 million, the increase in adjustment of retained earnings and translation adjustment in financial statement of Baht 78.62 million, and the increase of minority shareholders' equity of Baht 102.65 million.

CASH FLOWS (Unit : Million Baht)	9-Month Period (January – September)	
	Year 2012	Year 2011
Cash Flows from (used in) Operating Activities	783.20	1,073.98
Cash Flows from (used in) Investing Activities	(444.02)	(470.44)
Cash Flows from (used in) Financing Activities	(818.83)	(232.52)
Translation Adjustments in Financial Statements	(25.83)	35.97
Net Increase (Decrease) in Cash	(505.48)	406.99
Cash at the beginning of the period	1,212.39	829.22
Cash at the end of the period	706.91	1,236.21

CASH FLOWS

● The Company's net cash from operating activities in the first 9-month period of 2012 was at Baht 783.20 million, consisting of: (1) income before corporate income tax and interest payment of Baht 1,593.57 million; (2) transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 213.43 million, most of which were transactions concerning coal mining operations of the subsidiary companies in Indonesia; (3) operating assets increased by Baht 377.43 million due to the increase in inventories; (4) operating liabilities increased by Baht 329.26 million due to an increase in trade accounts payable and other payables; and (5) interest income increased by Baht 10.07 million but with an increase in interest expenses and taxes of Baht 985.70 million.

● The Company's net cash used in investment activities in the first 9-month period of 2012 was Baht 444.02 million, consisting of: (1) property plant and equipment of Baht 201.26 million, most of which was for the construction of ethanol production line no. 2 of the subsidiary company; (2) expenses of coal mine projects of subsidiary company in Indonesia, which increased by Baht 87.78 million; and (3) cash deposit and other items which decreased by a total of Baht 154.98.

● The Company's net cash used in financing activities in the first 9-month period of 2012 was Baht 818.83 million, including the net decrease in loan of Baht 200 million, dividend payment of Baht 601.99 million and the increase in minority shareholders equity of Baht 16.84 million.

LIQUIDITY

(1) The Company's current ratio and quick ratio as at September 30, 2012 were at 1.76 times and 0.84 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 2012 was at 31 days, a decrease from the same period last year by 5 day. The average debt collection period was at 30 days, an increase from the same period last year by 1 day. The average inventory turnover was at 22 days, a decrease from the same period last year by 4 days but the average debt payment period was at 21 days, or an increase from the same period last year by 2 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio as at September 30, 2012 was as low as 0.63 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 9-month period of 2012 at 41.13 times, which was considered quite high ratio and therefore should have no problem concerning with default of interest payment.