

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS (For the Consolidated Financial Statements of Year 2011)

REVENUES	Year 2011		Year 2010		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales Revenue from Coal	11,899.14	90.44	8,017.21	89.74	3,881.93	48.42
Sales Revenue from Ethanol	1,098.21	8.35	760.23	8.51	337.98	44.46
Other Revenue	159.40	1.21	156.79	1.75	2.61	1.66
Total Revenues	13,156.75	100.00	8,934.23	100.00	4,222.52	47.26

REVENUES: The Company's total revenues in 2011 were Baht 13,156.75 million, which increased from the previous year by Baht 4,222.52 million or an increase of 47.26 percent, due to the following reasons.

(1) Revenue from coal business in 2011 was Baht 11,899.14 million or 90.44 percent of the total revenues, which increased from the previous year by Baht 3,881.93 million or an increase of 48.42 percent. This was due to an increase in coal sales volume from the previous year by 25.20 percent, and average coal sales price increased from the previous year by 18.54 percent.

(2) Revenue from ethanol business in 2011 was Baht 1,098.21 million or 8.35 percent of the total revenues, which increased from the previous year by Baht 337.98 million or an increase of 44.46 percent. This was due to an increase in ethanol sales volume from the previous year by 38.38 percent, despite the decrease in average ethanol sale price of 2.72 percent.

(3) Other revenue in 2011 was Baht 159.40 million or 1.21 percent of the total revenues, which increased from the previous year by Baht 2.61 million or an increase of 1.66 percent, due to an increase interest income.

EXPENSES	Year 2011		Year 2010		Increase (Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
Coal Business						
Cost of sales	6,783.72	57.01	4,405.42	54.95	2,378.30	53.99
Selling and administrative expenses	2,533.31	21.29	1,879.69	23.45	653.62	34.77
Financial cost	1.02	0.01	11.27	0.14	(10.25)	(90.95)
Corporate income tax	948.16	7.97	624.40	7.79	323.76	51.85
Ethanol Business						
Cost of sales	1,061.82	96.69	805.36	105.94	256.46	31.84
Selling and administrative expenses	51.31	4.67	38.22	5.03	13.09	34.25
Financial cost	28.58	2.60	11.38	1.50	17.20	151.14

EXPENSES FROM COAL BUSINESS

(1) Cost of coal sales in 2011 increased from the previous year by Baht 2,378.30 million or an increase of 53.99 percent. This was due to the increase in coal sales volume and average cost of sales per ton by 25.20 percent and 22.99 percent, respectively.

(2) Selling and administrative expenses in 2011 increased from the previous year by Baht 653.62 million or an increase of 34.77 percent, in accordance with the increase in coal sales volume and revenue.

(3) Financial expenses in 2011 decreased from the previous year by Baht 10.25 million or a decrease of 90.95 percent due to the decrease in loan and interest expenses.

(4) Corporate income tax in 2011 increased from the previous year by Baht 323.76 million or an increase of 51.85 percent, in accordance with the increase in coal sales volume and profit from coal sales.

EXPENSES FROM ETHANOL BUSINESS

(1) Cost of ethanol sales in 2011 increased from the previous year by Baht 256.46 million or an increase of 31.84 percent due to the increase in ethanol sales volume of 38.38 percent but the average sales cost of ethanol per ton decreased by 14.73 percent due to a lower price of raw material, molasses, which is a major cost, by 13.89 percent as compared with the same period last year. Nonetheless, there were also the sales cost of deteriorated raw material, cassava, and allowance for diminution in inventory value of cassava of Baht 111.56 million.

(2) Selling and administrative expenses in 2011 increased from previous year by Baht 13.09 million or an increase of 34.25 percent according to the increase in ethanol sales volume and revenue.

(3) Financial expenses in 2011 increased from the previous year by Baht 17.20 million or increase 151.14 due to the increase in loan.

(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	%
Year 2011						
Revenues from Sales	11,899.14	100.00	1,098.21	100.00	12,997.35	100.00
Less Cost of Sales	6,783.72	57.01	1,061.82	96.69	7,845.54	60.36
Gross Profit	5,115.42	42.99	36.39	3.31	5,151.81	39.64
Year 2010						
Revenues from Sales	8,017.21	100.00	760.23	100.00	8,777.44	100.00
Less Cost of Sales	4,405.42	54.95	805.36	105.94	5,210.78	59.37
Gross Profit Margin (%)	3,611.79	45.05	(45.13)	(5.94)	3,566.66	40.63

GROSS PROFIT: The Company's overall gross profit in 2011 was Baht 5,151.81 million, or a gross profit margin of 39.64 percent of the sales revenue. When compared with the gross profit from the previous year of Baht 3,566.66 million or gross profit margin of 40.63 percent of sales revenue, the gross profit margin decreased due to the following reasons.

(1) Gross profit margin from the coal business in 2011 was 42.99 percent of the sales revenue, which decreased slightly from the previous year with the gross profit margin of 45.05 percent of the sales revenue. This was due to the fact that the average coal selling price per ton increased at a lower proportion than the increase in average cost of coal sales per ton.

(2) Gross profit margin from the ethanol business in 2011 was 3.31 percent of the sales revenue which increase from the previous year due to the decrease in the price of raw material, molasses, which is considered a major cost.

NET PROFIT	Year 2011		Year 2010		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	911.20	87.33	584.51	86.64	326.69	55.89
Loss from Ethanol Business	(33.10)	(3.17)	(71.81)	(10.64)	38.71	53.91
Share of income from investment in the associated company and other revenues	165.30	15.84	161.96	24.00	3.34	2.06
Net Profit	1,043.40	100.00	674.66	100.00	368.74	54.66
Net Profit per Share-Baht per Share	2.98		1.93		1.05	
Remark : Registered par value of Baht 1 per share						

NET PROFIT: The Company's net profit in 2011 was Baht 1,043.40 million (net earnings of Baht 2.98 per share). When compared with the previous year with the net profit of Baht 674.66 million (net earnings of Baht 1.93 per share), the net profit increased by Baht 368.74 million (an increase of net earnings per share of Baht 1.05 per share) or an increase of 54.66 percent due to the following reasons.

(1) Net profit from the coal business in 2011 was Baht 911.20 million or 87.33 percent of the total net profit, which increased from the previous year by Baht 326.69 million or an increase of 55.89 percent, due to the increase in coal sales volume.

(2) Net loss from the ethanol business in 2011 was Baht 33.10 million, which decreased from the previous year by Baht 38.71 million or a decrease of 53.91 percent, due to the decrease in ethanol sales cost as the price of molasses, the raw material, decreased.

(3) Net share of income from investment in the associated company and other revenue in 2011 were Baht 165.30 million or 15.84 percent of the total net profit, which increased from the previous year by Baht 3.34 million or an increase of 2.06 percent, due to the increase in share of income from associated company and interest income.

EBITDA: The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in 2011 was Baht 2,991.44 million. When compared with the previous year with EBITDA of Baht 2,007.62 million, the EBITDA increased by Baht 983.82 million, due to the increase in revenue and profit from the coal business as described above.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in 2011 was 13.34 percent of the total revenues. When compared with the previous year with the net profit margin of 13.02 percent of the total revenues, the net profit margin slightly increased by 2.40 percent.

(2) The Company's EBITDA margin in 2011 was 22.74 percent of the total revenues. When compared with the previous year with the EBITDA margin of 22.47 percent of the total revenues, the EBITDA margin slightly increased by 1.19 percent.

(3) The Company's average return on equity in 2011 was 35.40 percent. When compared with the previous year with the average return on equity of 26.81 percent, it increased by 32.02 percent.

(4) The Company's return on total assets and return on fixed assets in 2011 were at 26.79 percent and 70.84 percent, respectively. When compared with the previous year with the return on total assets and return on fixed assets of 22.74 percent and 63.69 percent, they increased by 17.79 percent and 11.23 percent, respectively. The asset turnover ratio was at 2.01 times, which was higher than that of the previous year with the asset turnover ratio of 1.75 times.

FINANCIAL STATUS	Unit : Million Baht		Increase (Decrease)	
	As at December 31, 2011	As at December 31, 2010	Amount	%
Total Assets	7,217.57	5,882.62	1,334.95	22.69
Total Liabilities	3,138.87	2,698.73	440.14	16.31
Total Shareholders' Equity	4,078.70	3,183.89	894.81	28.10
Book Value-Baht per Share	9.35	7.50	1.85	24.63
Remark : Registered par value of Baht 1 per share				

ASSETS: The Company's total assets as at end of 2011 increased from the end of 2010 by Baht 1,334.95 million or an increase of 22.69 percent, consisting of:

(1) Current assets increased from the end of 2010 by Baht 1,034.09 million or an increase of 38.43 percent, due to the following reasons.

(1.1) Cash and cash equivalent increased from the end of 2010 by Baht 383.17 million or an increase of 46.21 percent.

(1.2) Accounts receivable and other debtors increased from the end of 2010 by Baht 331.59 million or an increase of 38.27 percent in accordance with the increase in sales volume and revenue.

(1.3) Inventories increased from the end of 2010 by Baht 3.14 million or a slight increase of 1.17 percent.

(1.4) Other current assets increased from the end of 2010 by Baht 316.19 million or an increase of 43.50 percent due to increase in refundable value added tax.

(2) Non-current assets increased from the end of 2010 by Baht 300.86 million or an increase of 9.43 percent, most of which were the investment of the subsidiary company for the construction of the ethanol plant's production line no. 2.

LIABILITIES: The Company's total liabilities as at end of 2011 increased from the end of 2010 by Baht 440.14 million or an increase of 16.31 percent, consisting of:

(1) Current liabilities increased from the end of 2010 by Baht 1,147.03 million or an increase of 61.86 percent, due to the following reasons.

(1.1) Trade accounts payable and other creditors decreased from the end of 2010 by Baht 163 million or a decrease of 30.15 percent, due to the payment of machinery and the construction of the ethanol plant's production line no.2 of a subsidiary company.

(1.2) Short term and long term loans with payment due within one year increased from the end of 2010 by Baht 954 million due to the fact that the subsidiary could not maintain certain financial ratio as specified in the long term loan agreement. In compliance with Thai Accounting Standard No.1, the entire amount of long term loan of Baht 900 million must be categorized as a long term loan that must be repaid within one year. Accordingly, the bank which is the creditor issued a waiver letter for the condition to maintain certain financial ratios as specified in the loan agreement on February 7, 2012. The problem was not the default of loan payment but the construction of the Ethanol Production Line No. 2 of the subsidiary company, which is not completed and from which no revenue was generated in 2011. The construction is expected to be completed and the ethanol production should begin in early 2nd quarter of 2012. The subsidiary company has adequate cash flow to repay the long term loan according to the schedule in the loan agreement, starting from March 2012 onwards.

(1.3) Other current liabilities increased from the end of 2010 by Baht 356.03 million or an increase of 43.43 percent due to the increase of corporate income tax payable, which was in line with the increase in profit.

(2) Non-current liabilities decreased from the end of 2010 by Baht 706.89 million or a decrease of 85.22 percent due to the abovementioned reason in (1.2) of "Liabilities".

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at end 2011 increased from the end of 2010 by Baht 894.81 million or an increase of 28.10 percent, resulting in an increase of the share's book value from Baht 7.50 per share to Baht 9.35 per share. This was due to the increase in net profit of Baht 1,043.40 million, dividend payment of Baht 472.50 million, decrease of translation adjustments in the financial statements of Baht 75.58 million and increase of minority shareholders' equity of Baht 248.33 million.

CASH FLOWS	Unit : Million Baht	
	Year 2011	Year 2010
Cash Flows from Operating Activities	1,741.16	1,493.16
Cash Flows from (used in) Investing Activities	(615.45)	(1,137.85)
Cash Flows from (used in) Financing Activities	(792.15)	(5.30)
Increase (decrease) of Translation Adjustments in Financial Statements	49.61	(10.38)
Net Increase (Decrease) in Cash	383.17	339.63
Cash at the beginning of the period	829.22	489.59
Cash at the end of the period	1,212.39	829.22
Net cash flow return on equity (%)	54.69	52.22

● The Company's net cash from operating activities in 2011 was at Baht 1,741.16 million, consisting of:

(1) Income before corporate income tax and interest payment of Baht 2,702.88 million.

(2) Transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 324.36 million, most of which were the depreciation and amortization of overburden removal of coal mines in Indonesia.

(3) Operating assets increased by Baht 688.98 million due to the increase in accounts receivable and other current assets.

(4) Operating liabilities increased by Baht 284.67 million due to the increase in current liabilities.

(5) Interest income increased by Baht 9.20 million but there were increases in interest expenses and taxes of Baht 890.97 million.

- The Company's net cash used in investment activities in 2011 was Baht 615.45 million including the increase in property, plant and equipment of Baht 496.77 million, mostly from the new ethanol plant construction of the subsidiary company and other assets such as expenses of coal mine projects in Indonesia, which increased by Baht 118.68 million.

- The Company's net cash used in financing activities in 2011 was Baht 792.15 million. This was due to the net increase in loan of Baht 209.26 million, dividend payment of Baht 1,014.53 million, cash deposit with guarantee obligation of Baht 21.02 million, and the increase in minority shareholders equity by Baht 34.14 million.

- In summary, the Company's main sources of cash were from the sales of coal and ethanol with ability to collect the bills on time. The net cash flow return on equity in 2011 was at 54.69 percent.

LIQUIDITY

(1) The Company's overall liquidity in 2011 was considered in good standing having a current ratio as at end 2011 at 1.23 times but a quick ratio as at end of 2011 was at 0.80 times, due to the abovementioned reason in (1.2) of "Liabilities", which does not affect the cash flow and liquidity of the Company and its subsidiary companies. 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 2011 was at 26 days, a decrease from the previous year by 5 days. The average debt collection period was at 29 days, an increase from the previous year by 3 days. The average inventory turnover was at 13 days, a decrease from the previous year by 12 days but the average debt payment period was at 16 days, or a decrease from the previous year by 4 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio as at end of 2011 was as low as 0.77 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 2011 at 101.06 times, which was considered quite high ratio and therefore should have no problem concerning with default of interest payment.