

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS (For the Financial Statements of the First Quarter 2011)

REVENUES	1 st Quarter 2011		1 st Quarter 2010		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales Revenue from coal	2,469.26	90.18	2,129.37	89.32	339.89	15.96
Sales Revenue from Ethanol	230.98	8.44	217.06	9.10	13.92	6.41
Other Revenue	37.76	1.38	37.64	1.58	0.12	0.32
Total Revenues	2,738.00	100.00	2,384.07	100.00	353.93	14.85

REVENUES: The Company's total revenues in the first quarter 2011 were Baht 2,738.00 million, which increased from the same previous last year by Baht 353.93 million or an increase of 14.85 percent, due to the following reasons.

(1) Revenue from coal business in the first quarter 2011 was Baht 2,469.26 million or 90.18 percent of the total revenues, which increased from the same period last year by Baht 339.89 million or an increase of 15.96 percent. This was due to an increase in the average coal sales price from the previous year by 19.77 percent, although coal sales volume decreased from the previous year by 3.18 percent.

(2) Revenue from ethanol business in the first quarter 2011 was Baht 230.98 million or 8.44 percent of the total revenues, which increased from the same period last year by Baht 13.92 million or an increase of 6.41 percent. This was due to an increase in the ethanol sales volume from the same previous last year by 9.17 percent but the average selling price of ethanol decreased from the previous year by 2.61 percent.

(3) Other revenue in the first quarter 2011 was Baht 37.76 million or 1.38 percent of the total revenues, which increased from the same period last year by Baht 0.12 million or an increase of 0.32 percent.

EXPENSES	1 st Quarter 2011		1 st Quarter 2010		Increase (Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
Coal Business						
Cost of sales	1,289.17	52.21	1,260.32	59.19	28.85	2.29
Selling and administrative expenses	524.01	21.22	464.67	21.82	59.34	12.77
Financial expenses	0.28	0.01	3.36	0.16	(3.08)	(91.67)
Corporate income tax	208.24	8.43	134.59	6.32	73.65	54.72
Ethanol Business						
Cost of sales	226.37	98.00	203.69	93.84	22.68	11.13
Selling and administrative expenses	9.53	4.13	7.33	3.38	2.20	30.01
Financial expenses	3.40	1.47	2.43	1.12	0.97	39.92

EXPENSES FROM COAL BUSINESS

(1) Cost of coal sales in the first quarter 2011 increased from the same period last year by Baht 28.85 million or an increase of 2.29 percent. This was due to an increase in the fuel price resulting in an increased cost of coal winning.

(2) Selling and administrative expenses in the first quarter 2011 increased from the same period last year by Baht 59.34 million or an increase of 12.77 percent, in accordance with an increase of coal sales revenue.

(3) Financial expenses in the first quarter 2011 decreased from the same period last year by Baht 3.08 million or a decrease of 91.67 percent due to a decrease in the interest expense.

(4) Corporate income tax in the first quarter 2011 increased from the same period last year by Baht 73.65 million or an increase of 54.72 percent, in accordance with an increase of profit from coal sales.

EXPENSES FROM ETHANOL BUSINESS

(1) Cost of ethanol sales in the first quarter 2011 increased from the same period last year by Baht 22.68 million or an increase of 11.13 percent due to an increase in the ethanol sales volume of 9.17 percent and a slight increase of the average sales cost of ethanol per liter by 1.80 percent as compared with that of the previous year.

(2) Selling and administrative expenses in the first quarter 2011 increased from the same period last year by Baht 2.20 million or an increase of 30.01 percent.

(3) Financial expenses in the first quarter 2011 increased from the same period last year by Baht 0.97 million due to an 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	%
1st Quarter 2011						
Revenues from Sales	2,469.26	100.00	230.98	100.00	2,700.24	100.00
Less Cost of Sales	1,289.17	52.21	226.37	98.00	1,515.54	56.13
Gross Profit	1,180.09	47.79	4.61	2.00	1,184.70	43.87
1st Quarter 2010						
Revenues from Sales	2,129.37	100.00	217.06	100.00	2,346.43	100.00
Less Cost of Sales	1,260.32	59.19	203.69	93.84	1,464.01	62.39
Gross Profit Margin (%)	869.05	40.81	13.37	6.16	882.42	37.61

GROSS PROFIT: The Company's overall gross profit in the first quarter 2011 was Baht 1,184.70 million, or a gross profit margin of 43.87 percent of the sales revenue. When compared with the gross profit from the same period last year of Baht 882.42 million or gross profit margin of 37.61 percent of sales revenue, the gross profit margin increased due to the following reasons.

(1) Gross profit margin from the coal business in the first quarter 2011 was 47.79 percent of the sales revenue, increasing from the same period last year with the gross profit margin of 40.81 percent of the sales revenue. This was due to an increase in the average coal sales price per ton by 19.77 percent while the average cost of coal sales per ton increased slightly by 5.64 percent.

(2) Gross profit margin from the ethanol business in the first quarter 2011 was 2.00 percent of the sale revenues, decreasing from the same period last year with the gross profit margin of 6.16 percent of the sales revenues. This was due to a decrease in the average ethanol sale price by 2.61 percent while the average cost of ethanol sales increased by 1.80 percent.

NET PROFIT	1 st Quarter 2011		1 st Quarter 2010		Increase (Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Profit from Coal Business	261.55	89.16	153.27	78.27	108.28	70.65
Profit (Loss) from Ethanol Business	(6.41)	(2.18)	2.73	1.39	(9.14)	(334.76)
Share of income from investment in the associate companies and other revenues	38.22	13.02	39.82	20.34	(1.60)	(4.02)
Net Profit	293.36	100.00	195.82	100.00	97.54	49.81
Net Profit per Share-Baht per Share (Registered par value of Baht 1 per share)	0.84		0.56		0.28	49.81

NET PROFIT: The Company's net profit in the first quarter 2011 was Baht 293.36 million (net earnings of Baht 0.84 per share). When compared with the same period last year with the net profit of Baht 195.82 million (net earnings of Baht 0.56 per share), the net profit increased by Baht 97.54 million (an increase of net earnings per share by Baht 0.28 per share) or an increase of 49.81 percent due to the following reasons.

(1) Net profit from the coal business in the first quarter 2011 was Baht 261.55 million or 89.16 percent of the total net profit, increasing from the same period last year by Baht 108.28 million or an increase of 70.65 percent. This was due to an increase in the coal sales revenue as described above.

(2) Net loss from the ethanol business in the first quarter 2011 was Baht 6.41 million, accounting for an increase in loss from the same quarter of previous year by Baht 9.14 million or an increase of 334.76 percent. This was due to a decrease in the ethanol sales price but there was an increase of cost of sale as described above.

(3) Net share of income from investment in the associated companies and other revenue in the first quarter 2011 were Baht 38.22 million or 13.02 percent of the total net profit, a slight decrease from the same period last year by Baht 1.60 million or a decrease of 4.02 percent, due to a decrease in the net share of income from the associated companies.

EBITDA: The Company's EBITDA (Earnings before financial expenses, corporate income tax, depreciation and amortization) in the first quarter 2011 was Baht 739.40 million. When compared with the same period last year with EBITDA of Baht 497.98 million, the EBITDA increased by Baht 241.42 million, due to an increase in the profit from the coal business as described above.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the first quarter 2011 was 17.44 percent of the total revenues. When compared with the same period last year with the net profit margin of 13.00 percent of the total revenues, the net profit margin increased by 34.17 percent due to an increase in the net profit.

(2) The Company's EBITDA margin in the first quarter 2011 was 27.01 percent of the total revenues. When compared with the same period last year with the EBITDA margin of 20.89 percent of the total revenues, the EBITDA margin increased by 29.30 percent due to an increase in the net profit.

(3) The Company's average return on equity in the first quarter 2011 was 10.56 percent. When compared with the same period last year with the average return on equity of 7.85 percent, it increased by 34.46 percent due to an increase in the net profit.

(4) The Company's return on total assets in the first quarter 2011 was at 7.78 percent. When compared with the same period last year with the return on total assets of 6.63 percent, it increased by 17.29 percent. The return on fixed asset in the first quarter 2011 was at 19.87 percent. When compared with the same period last year with the return on fixed assets of 21.26 percent, it decreased by 6.51 percent due to the construction of additional ethanol production plant. Currently, the new ethanol production line is during testing and commissioning period and therefore no revenue is being generated from this new plant. The asset turnover ratio was at 0.45 times, which was slightly lower than that of the previous year with the asset turnover ratio of 0.51 times.

FINANCIAL STATUS	Unit : Million Baht		Increase (Decrease)	
	As at March 31, 2011	As at December 31, 2010	Amount	%
Total Assets	6,388.41	5,882.62	505.79	8.60
Total Liabilities	2,772.10	2,698.73	73.37	2.72
Total Shareholders' Equity	3,616.31	3,183.89	432.42	13.58
Book Value-Baht per Share (Registered par value of Baht 1 per share)	8.38	7.50	0.88	11.74

ASSETS: The Company's total assets as at March 31, 2011 increased from the end of 2010 by Baht 505.79 million or an increase of 8.60 percent, consisting of:

(1) Current assets, increasing from the end of 2010 by Baht 437.75 million or an increase of 16.27 percent. This was due to the following reasons.

(1.1) Cash and cash equivalent decreased from the end of 2010 by Baht 50.37 million or a decrease of 6.07 percent.

(1.2) Accounts receivable increased from the end of 2010 by Baht 13.42 million or a slight increase of 1.56 percent.

(1.3) Inventories increased from the end of 2010 by Baht 383.07 million or an increase of 142.61 percent, due to an increase in the coal stock. Also, additional cassava was purchased to be used for ethanol production of the new plant.

(1.4) Other current assets increased from the end of 2010 by Baht 91.63 million or an increase of 12.47 percent due to an increase in the prepaid corporate income tax.

(2) Non-current assets increased from the end of 2010 by Baht 68.04 million or an increase of 2.13 percent, largely accounting for the investment of the subsidiary company for the construction of ethanol production line no. 2 (new plant).

LIABILITIES: The Company's total liabilities as at March 31, 2011 increased from the end of 2010 by Baht 73.37 million or an increase of 2.72 percent, consisting of:

(1) Current liabilities increased from the end of 2010 by Baht 9.41 million or an increase of 0.50 percent. This was due to the following reasons.

(1.1) Trade accounts payable increased from the end of 2010 by Baht 37.89 million or an increase of 11.07 percent in accordance with an increase in the sales revenue.

(1.2) Short term and long term loans with payment due within one year increased from the end of 2010 by Baht 104 million.

(1.3) Other current liabilities decreased from the end of 2010 by Baht 132.48 million or a decrease of 13.01 percent due to a decrease in the corporate income tax payable of the subsidiary companies.

(2) Non-current liabilities, increasing from the end of 2010 by Baht 63.96 million or an increase of 7.71 percent due to an increase in the long term loan of the subsidiary companies.

TOTAL SHAREHOLDERS' EQUITY: The total shareholders' equity of the Company as at March 31, 2011 increased from the end of 2010 by Baht 432.42 million or an increase of 13.58 percent, resulting in an increase of share's book value from Baht 7.50 per share to Baht 8.38 per share. This was due to an increase in the net profit of Baht 293.36 million, an increase of translation adjustments in the financial statements of Baht 14.77 million and an increase in the minority shareholders' equity of the subsidiary companies by Baht 124.29 million.

CASH FLOWS	Unit : Million Baht	
	1 st Quarter 2011	1 st Quarter 2010
Cash Flows from (used in) Operating Activities	43.08	148.42
Cash Flows from (used in) Investing Activities	(214.93)	(210.09)
Cash Flows from (used in) Financing Activities	109.45	145.45
Increase (decrease) of Translation Adjustments in Financial Statements	12.03	(6.49)
Net Increase (Decrease) in Cash	(50.37)	77.29
Cash at the beginning of the period	829.22	489.59
Cash at the end of the period	778.85	566.88

- The Company's net cash from operating activities in the first quarter 2011 was at Baht 43.08 million, consisting of:

- (1) Net income before corporate income tax and interest payment of Baht 685.70 million,

- (2) Transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 23.45 million, of which mainly were the depreciation and amortization of overburden removal of coal mines in Indonesia,

- (3) Operating assets increased by Baht 413.36 million due to an increase in the accounts receivable and inventories,

- (4) Operating liabilities increased by Baht 127.77 million due to an increase in the accounts payable and other current liabilities, and

- (5) Interest income increased by Baht 2.01 million but the interest expenses and taxes increased by Baht 382.49 million.

- The Company's net cash used in investment activities in the first quarter 2011 was Baht 214.93 million, accounting for an increase of property, plant and equipment of Baht 195.65 million, largely from the new ethanol plant construction of the subsidiary company and increase in the other assets such as expenses of coal mine projects in Indonesia, by Baht 19.28 million.

- The Company's net cash from financing activities in the first quarter 2011 was Baht 109.45 million, accounting for the net increase in the loan of Baht 169.26 million, dividend payment of Baht 110.00 million, and an increase in the minority shareholders' equity of Baht 50.19 million.

- In summary, the Company's main sources of cash were from the sales of coal and ethanol, with the ability to collect the bills on time.

LIQUIDITY

- (1) The Company's overall liquidity in the first quarter 2011 was considered in good standing, having a current ratio as at March 31, 2011 at 1.67 times but the quick ratio as at end 2010 was at 0.88 times. This was due to the fact that the subsidiary company had an increased amount of short term loans used as its working capital for the purchase of the raw materials for ethanol production in 2011. However, 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 2011 was at 35 days, an increase from the same period last year by 2 days. The average debt collection period was at 29 days, an increase from the same period last year by 6 days. The average inventory turnover was at 27 days, a decrease from the previous year by 2 days. However, the average debt payment period was at 21 days, or an increase from the previous year by 2 days.

BORROWING AND DEBT PAYMENT CAPABILITY

The Company's total debt to equity ratio as at March 31, 2011 was at 0.77 to 1, which was considered low. 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 200.92 times, which was considered quite high ratio. Therefore, the Company should have no problem concerning with default of interest payment.
