

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 2nd Quarter
and the First 6-Month Period of 2011)

REVENUES	Year 2011		Year 2010		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
2nd Quarter (April – June)						
Sales Revenue from Coal	2,923.30	89.69	1,965.18	90.73	958.12	48.75
Sales Revenue from Ethanol	283.86	8.71	172.42	7.96	111.44	64.63
Other Revenue	52.33	1.60	28.44	1.31	23.89	84.00
Total Revenues	3,259.49	100.00	2,166.04	100.00	1,093.45	50.48
6-Month period (January – June)						
Sales Revenue from Coal	5,392.55	90.07	4,094.54	90.23	1,298.01	31.70
Sales Revenue from Ethanol	514.85	8.60	389.48	8.58	125.37	32.19
Other Revenue	79.60	1.33	53.75	1.19	25.85	48.09
Total Revenues	5,987.00	100.00	4,537.77	100.00	1,449.23	31.94

REVENUES

(1) The Company's total revenues in the 2nd quarter 2011 were Baht 3,259.49 million, an increase from the same period last year by Baht 1,093.45 million or an increase of 50.48 percent, due to the following reasons.

(1.1) Revenue from coal business in the 2nd quarter 2011 was Baht 2,923.30 million or 89.69 percent of the total revenues, which increased from the same period last year by Baht 958.12 million or an increase of 48.75 percent. This was due to the increase of coal sale volume and average coal price as compared to the same period last year by 29.04 percent and 15.28 percent respectively.

(1.2) Revenue from ethanol business in the 2nd quarter 2011 was Baht 283.86 million or 8.71 percent of the total revenues, which increased from the same period last year by Baht 111.44 million or an increase of 64.63 percent. This was due to the increase in ethanol sales volume and average ethanol price as compared to the same period last year by 57.25 percent and 4.30 percent respectively.

(1.3) Other revenue in the 2nd quarter 2011 was Baht 52.33 million or 1.60 percent of the total revenues, which increased from the same period last year by Baht 23.89 million or an increase of 84.00 percent, mainly due to the increase in the subsidiary's revenues from providing services for the coal transport route and coal loading port by Baht 21.64 million or an increase of 146.41 percent.

(2) The Company's total revenues in the first 6-month period of 2011 were Baht 5,987 million, an increase from the same period last year by Baht 1,449.23 million or an increase of 31.94 percent, due to the following reasons.

(2.1) Revenue from coal sales in the first 6-month period of 2011 was Baht 5,392.55 million or 90.07 percent of the total revenues, which increased from the same period last year by Baht 1,298.01 million or an increase of 31.70 percent. This was due to the increase of coal sale volume and average coal price as compared to the same period last year by 11.67 percent and 17.94 percent, respectively.

(2.2) Revenue from sales of ethanol business in the first 6-month period of 2011 was Baht 514.85 million or 8.60 percent of the total revenues, which increased from the same period last year by Baht 125.37 million or an increase of 32.19 percent. This was due to the increase in ethanol sales volume and average ethanol price as compared to the same period last year by 31.01 percent and 0.61, respectively.

(2.3) Other revenue in the first 6-month period of 2011 was Baht 79.60 million or 1.33 percent of the total revenues, which increased from the same period last year by Baht 25.85 million or increase of 48.09 percent, mainly due to the increase in subsidiary's revenues from providing services for coal transport route and coal loading port by Baht 21.62 million or an increase of 44.08 percent.

EXPENSES	Year 2011		Year 2009		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	1,579.56	54.03	979.75	49.86	599.81	61.22
Selling and administrative expenses	610.59	20.89	435.37	22.15	175.22	40.25
Financial cost	0.50	0.02	3.65	0.19	(3.15)	(86.30)
Corporate income tax	269.75	9.23	195.13	9.93	74.62	38.24
<u>Ethanol Business</u>						
Cost of sales	259.46	91.40	182.80	106.02	76.66	41.94
Selling and administrative expenses	15.84	5.58	11.63	6.75	4.21	36.20
Financial cost	7.60	2.68	2.55	1.48	5.05	198.04
<u>6-Month Period (January – June)</u>						
<u>Coal Business</u>						
Cost of sales	2,868.73	53.20	2,240.06	54.71	628.67	28.06
Selling and administrative expenses	1,124.09	20.85	887.72	21.68	236.37	26.63
Financial cost	0.78	0.01	7.01	0.17	(6.23)	(88.87)
Corporate income tax	477.98	8.86	329.71	8.05	148.27	44.97
<u>Ethanol Business</u>						
Cost of sales	485.83	94.36	386.49	99.23	99.34	25.70
Selling and administrative expenses	25.39	4.93	18.94	4.86	6.45	34.05
Financial cost	11.00	2.14	4.99	1.28	6.01	120.44

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 2nd quarter 2011 increased from the same period last year by Baht 846.50 million or an increase of 52.45 percent due to the following reasons.

(1.1) Cost of coal sales in the 2nd quarter 2011 increased from the same period last year by Baht 599.81 million or an increase of 61.22 percent. This was due to increase in coal sales volume as compared to the same period last year by 29.04 percent and increase in average cost of coal sales per ton as compared to the same period last year by 24.94 percent, due to the increase in fuel price.

(1.2) Selling and administrative expenses in the 2nd Quarter 2011 increased from the same period last year by Baht 175.22 million or an increase of 40.25 percent, according to the increase in coal sales revenue.

(1.3) Financial cost in the 2nd quarter 2011 decreased from same period last year by Baht 3.15 million or a decrease of 86.30 percent due to the decrease in loan and interest expenses.

(1.4) Corporate income tax in the 2nd quarter 2011 increased from the same period last year by Baht 74.62 million or an increase of 38.24 percent, according to the increase in profit from coal sales.

(2) Expenses from coal business in the first 6-month period of 2011 increased from the same period last year by Baht 1,007.07 million or an increase of 29.07 percent due to the following reasons.

(2.1) Cost of coal sales in the first 6-month period of 2011 increased from the same period last year by Baht 628.67 million or an increase of 28.06 percent. This was due to the increase in coal sales volume as compared to the same period last year by 11.67 percent and increase of average cost of coal sales per ton from the same period last year by 14.68 percent, due to the increase in fuel price.

(2.2) Selling and administrative expenses in the first 6-month period of 2011 increased from the same period last year by Baht 236.37 million or an increase of 26.63 percent, according to the increase in coal sales revenues.

(2.3) Financial cost for the first 6-month period of 2011 decreased from same period last year by Baht 6.23 million or a decrease of 88.87 percent due to the decrease in loan and interest expenses.

(2.4) Corporate income tax for the first 6-month period of 2011 increased from the same period last year by Baht 148.27 million or an increase of 44.97 percent, according to the increase in profit from coal sales.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business for the 2nd quarter 2011 increased from the same period last year by Baht 85.62 million or an increase of 43.62 percent due to the following reasons.

(1.1) Cost of ethanol sales for the 2nd quarter 2011 increased from the same period last year by Baht 76.66 million or an increase of 41.94 percent. This was due to the increase in ethanol sales volume of 57.25 percent but the average cost per ton of ethanol decreased by 9.74 percent due to the decrease in price of raw material, molasses, which is the major cost, by 9.48 percent as compared to the same period last year.

(1.2) Selling and administrative expenses for the 2nd Quarter 2011 increased from the same period last year by Baht 4.21 million or an increase of 36.20 percent according to the increase in ethanol sale revenues.

(1.3) Financial cost for the 2nd quarter 2011 increased from the same period last year by Baht 5.05 million or an increase of 198.04 percent due to the increase in loan and interest expenses.

(1.4) There was no corporate income tax on earnings from the ethanol business, having received the Board of Investment Promotion.

(2) Expenses from ethanol business for the first 6-month period of 2011 increased from the same period last year by Baht 111.80 million or an increase of 27.24 percent due to the following reasons.

(2.1) Cost of ethanol sales for the first 6-month period of 2011 increased from the same period last year by Baht 99.34 million or an increase of 25.70 percent. This was due to the increase in ethanol sales volume of 31.01 percent, although the average cost per ton of ethanol decreased by 4.05 percent. This was due to the decrease in price of raw material, molasses, which is the major cost, by 4.11 percent as compared to the same period last year.

(2.2) Selling and administrative expenses for the first 6-month period of 2011 increased from the same period last year by Baht 6.45 million or an increase of 34.05 percent due to the increase in ethanol sale revenues.

(2.3) Financial cost for the first 6-month period of 2011 increased from the same period last year by Baht 6.01 million or an increase of 120.44 percent due to the increase in loan and interest expenses.

(2.4) There was no corporate income tax on 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 2011</u>						
Revenues from Sales	2,923.30	100.00	283.86	100.00	3,207.16	100.00
<u>Less Cost of Sales</u>	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
<u>Year 2010</u>						
Revenues from Sales	1,965.18	100.00	172.42	100.00	2,137.60	100.00
<u>Less Cost of Sales</u>	979.75	49.86	182.80	106.02	1,162.55	54.39
Gross Profit Margin (%)	985.43	50.14	(10.38)	(6.02)	975.05	45.61
6-Month period (January – June)						
<u>Year 2011</u>						
Sales Revenues	5,392.55	100.00	514.85	100.00	5,907.40	100.00
<u>Less Cost of Sales</u>	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
<u>Year 2010</u>						
Revenues from Sales	4,094.54	100.00	389.48	100.00	4,484.02	100.00
<u>Less Cost of Sales</u>	2,240.06	54.71	386.49	99.23	2,626.55	58.58
Gross Profit	1,854.48	45.29	2.99	0.77	1,857.47	41.42

GROSS PROFIT

(1) The Company's gross profit in the 2nd quarter 2011 was Baht 1,368.14 million, or a gross profit margin of 42.66 percent of the sales revenue. When compared with the gross profit from the same period last year of Baht 975.05 million or gross profit margin of 45.61 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 2011 was 45.97 percent of the sales revenue, which decreased from the same previous last year that had the gross profit margin of 50.14 percent of the sales revenue. Although the average coal price increased by 15.28 percent but average cost of coal sales increased by 24.94 percent.

(1.2) Gross profit margin from the ethanol business in the 2nd quarter 2011 was 8.60 percent of the sales revenue, which increased from the same previous last year, due to the decrease in the cost of raw material, molasses, which is the major cost, as described above.

(2) The Company's gross profit in the first 6-month period of 2011 was Baht 2,552.84 million, or a gross profit margin of 43.21 percent of the sales revenue. When compared with the gross profit from the same period last year of Baht 1,857.47 million or gross profit margin of 41.42 percent of sales revenue, the gross profit margin increased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 6-month period of 2011 was 46.80 percent of the sales revenue, which increased from the same previous last year that had the gross profit margin of 45.29 percent of the sales revenue. This is due to the fact that the average of coal price increased at a higher proportion than the increase in average cost of coal sale, as described above.

(2.2) Gross profit margin from ethanol business in the first 6-month period of 2011 was 5.64 percent of sales revenue, which increased from the same period last year with the gross profit margin of 0.77 percent of sales revenue, due to the increase in average ethanol price per liter and the cost of raw material, molasses, which is the major cost, decreased as described above.

NET PROFIT	Year 2011		Year 2010		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
<u>2nd Quarter (April – June)</u>						
Profit from Coal Business	243.80	81.68	188.93	94.66	54.87	29.05
Profit (Loss) from Ethanol Business	0.72	0.24	(18.62)	(9.33)	19.34	103.86
Share of income from investment in the associate company and other revenues	53.96	18.08	29.28	14.67	24.68	84.29
Net Profit	298.48	100.00	199.59	100.00	98.89	49.55
Net Earnings per Share-Baht per Share (Registered par value of Baht 1 per share)	0.85		0.57		0.28	49.55
<u>6 Month period (January – June)</u>						
Profit from Coal Business	515.85	87.16	354.53	89.66	161.32	45.50
Profit (Loss) from Ethanol Business	(5.70)	(0.96)	(15.88)	(4.02)	10.18	64.11
Share of income from investment in the associate company and other revenues	81.69	13.80	56.77	14.36	24.92	43.90
Net Profit	591.84	100.00	395.42	100.00	196.42	49.67
Net Earnings per Share-Baht per Share (Registered par value of Baht 1 per share)	1.69		1.13		0.56	49.67

NET PROFIT

(1) The Company's net profit in the 2nd quarter 2011 was Baht 298.48 million (net earnings of Baht 0.85 per share). In comparison with the same period last year with the net profit of Baht 199.59 million (net earnings of Baht 0.57 per share), the net profit increased by Baht 98.89 million (net earnings per share increase of Baht 0.28 per share) or an increase of 49.55 percent due to the following reasons.

(1.1) Net profit from the coal business in the 2nd quarter 2011 was Baht 243.80 million or 81.68 percent of the total net profit, which increased from the same period last year by Baht 54.87 million or an increase 29.05 percent due to the increase in coal sales volume and average coal price as described above.

(1.2) Net profit from the ethanol business in the 2nd quarter 2011 was Baht 0.72 million, which increased from the same period last year by Baht 19.34 million or an increase of 103.86 percent, due to the increase in ethanol sales volume and average in ethanol price, as described above.

(1.3) Net share of income from investment in the associated companies and other revenues for the 2nd quarter 2011 was Baht 53.96 million or 18.08 percent of the total net profit, which increased from the previous year by Baht 24.68 million or an increase of 84.29 percent due to the increase in subsidiary's revenues from providing services for coal transport route and coal loading port as described above.

(2) The Company's net profit for the first 6-month period of 2011 was Baht 591.84 million (net earnings of Baht 1.69 per share). In comparison with the same period last year with the net profit of Baht 395.42 million (net earnings of Baht 1.13 per share), the net profit increased by Baht 196.42 million (net earnings per share increase of Baht 0.56 per share) or an increase of 49.67 percent due to the following reasons.

(2.1) Net profit from the coal business for the first 6-month period of 2011 was Baht 515.85 million or 87.16 percent of the total net profit, which increased from the same period last year by Baht 161.32 million or an increase of 45.50 percent due to the increase in coal sales volume and average coal price as described above.

(2.2) Net loss from the ethanol business in the first 6-month period of 2011 was Baht 5.70 million, of which loss decreased from the same period last year by Baht 10.18 million or a decrease of loss by 64.11 percent. Although the sales volume and the average ethanol price increased as described above but there was an increase in expense of Baht 5.79 million for testing and commissioning of the new ethanol production line no. 2 while no revenue was generated from this production line no. 2.

(2.3) Net share of income from investment in the associated companies and other revenues in the first 6-month period of 2011 was Baht 81.69 million or 13.80 percent of the total net profit, which increased from the same period last year by Baht 24.92 million or an increase of 43.90 percent due to increase in subsidiary's revenues from providing services for coal transport route and coal loading port as described above.

EBITDA : The Company's EBITDA (Earnings before interest expenses, corporate income tax, depreciation and amortization) in the first 6-month period of 2011 was Baht 1,590.90 million. In comparison with the same period last year with the EBITDA of Baht 1,106.51 million, the EBITDA increased by Baht 484.39 million or an increase 43.78 percent, due to the increase in coal sales revenue and profit from the coal business as described above.

EARNINGS EFFICIENCY

(1) The Company's net profit margin in the first 6-month period of 2011 was 16.62 percent of the total revenues. When compared with the same period last year with the net profit margin of 14.67 percent of the total revenues, the net profit margin increased by 13.29 percent due to increase in net profit.

(2) The Company's EBITDA margin in the first 6-month period of 2011 was 26.57 percent of the total revenues. When compared with the same period last year with the EBITDA margin of 24.38 percent of the total revenues, the EBITDA margin increased by 8.98 percent due to the increase in net profit.

(3) The Company's average return on equity in the first 6-month period of 2011 was 20.81 percent. When compared with the same period last year with the average return on equity of 15.77 percent, it increased by 31.94 percent due to the increase in net profit.

(4) The Company's return on total assets the first 6-month period of 2011 was 15.26 percent. When compared with the same period last year with the return on total assets of 13.50 percent, it increased by 13.02 percent. The return on fixed asset in the first 6-month period of 2011 was

at 40.93 percent. When compared with the same period last year with the return on fixed assets of 43.35 percent, it decreased by 5.57 percent due to the construction of additional ethanol production plant without revenue being generated, as described above. The asset turnover ratio was at 0.92 times, which was equal to the same period last year.

Description	Million Baht		Increase/(Decrease)	
	As at June 30, 2011	As at December 31, 2010	Mil. Baht	%
Total Assets	7,160.72	5,882.62	1,278.10	21.73
Total Liabilities	3,357.57	2,698.73	658.84	24.41
Total Shareholders' Equity	3,803.15	3,183.89	619.26	19.45
Book Value-Baht per Share (Registered par value of Baht 1 per share)	8.75	7.50	1.25	16.73

ASSETS : The Company's total assets as at June 30, 2011 increased from the end of 2010 by Baht 1,278.10 million or an increase of 21.73 percent, consisting of:

(1) Current assets increased from the end of 2010 by Baht 1,126.46 million or an increase of 41.86 percent, due to the following reasons.

(1.1) Cash and cash equivalent increased from the end of 2010 by Baht 291.23 million or an increase of 35.12 percent.

(1.2) Accounts receivable increased from the end of 2010 by Baht 105.36 million or an increase of 12.27 percent due to the increase in sales revenues.

(1.3) The inventories increased from the end of 2010 by Baht 481.86 million or an increase of 179.39 percent, due to an increase in the coal stock, as well as the purchase of additional cassava for ethanol production of the new plant.

(1.4) Other current assets increased from the end of 2010 by Baht 248.01 million or an increase of 33.75 percent due to the increase in the prepaid corporate income tax.

(2) Non-current assets increased from the end of 2010 by Baht 151.64 million or an increase of 4.75 percent, largely accounting for investment of the subsidiary company for construction of the ethanol production line no. 2 (new plant).

LIABILITIES : The Company's total liabilities as at June 30, 2011 increased from the end of 2010 by Baht 658.84 million or an increase of 24.41 percent, consisting of:

(1) Current liabilities increased from the end of 2010 by Baht 587.09 million or an increase of 31.41 percent, due to the following reasons.

(1.1) Trade accounts payable increased from the end of 2010 by Baht 119.00 million or an increase of 34.77 percent, due to the increase in sales revenue.

(1.2) Short term and long term loans with payment due within one year increased from the end of 2010 by Baht 176.36 million.

(1.3) Other current liabilities increased from the end of 2010 by Baht 291.73 million or an increase of 28.66 percent due to the increase of corporate income tax payable of the subsidiary companies, which was inline with the increase in profit.

(2) Non-current liabilities increased from the end of 2010 by Baht 71.75 million or an increase of 8.65 percent due to the increase in long term loan of the subsidiary company.

TOTAL SHAREHOLDERS' EQUITY : The total shareholders' equity of the Company as at June 30, 2011 increased from the end of 2010 by Baht 619.26 million or an increase of 19.45 percent, resulting in the increase of share's book value from Baht 7.50 per share to Baht 8.75 per share. This was due to the increase of net profit of Baht 591.84 million, dividend payment of Baht 192.50 million, decrease of translation adjustments in the financial statements by Baht 39.77 million and increase of minority shareholders' equity of the subsidiary companies by Baht 180.15 million.

CASH FLOWS (Unit : Million Baht)	The First 6-Month Period (January – June)	
	Year 2011	Year 2010
Cash Flows from (used in) Operating Activities	765.51	738.65
Cash Flows from (used in) Investing Activities	(361.32)	(427.20)
Cash Flows from (used in) Financing Activities	(142.09)	139.48
Translation Adjustments in Financial Statements	29.13	(3.54)
Net Increase (Decrease) in Cash	291.23	447.39
Cash at the beginning of the period	829.22	489.59
Cash at the end of the period	1,120.45	936.98
Net cash flow return on equity	24.04	30.54

- The Company's net cash from in operating activities in the first 6-month period of 2011 was at Baht 765.51 million, due to:

- (1) Net income before corporate income tax and interest payment of Baht 1,473.27 million.

- (2) Transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 108.46 million, of which were mainly the depreciation and amortization of overburden removal of coal mines in Indonesia.

- (3) Operating assets increased by Baht 686.13 million due to the increase in accounts receivable and inventories.

- (4) Operating liabilities increased by Baht 404.23 million due to the increase in accounts payable and increase liabilities which mainly increase in corporate income tax payable.

- (5) Interest income increased by Baht 3.09 million but there were increases in interest expenses and taxes of Baht 537.41 million.

- The Company's net cash used in investment activities in the first 6-month period of 2011 was Baht 361.32 million due to the increase in property, plant and equipment of Baht 301.05 million from the new ethanol plant construction of the subsidiary company and other assets such as expenses of coal mine projects in Indonesia increased by Baht 60.27 million.

- The Company's net cash used in financing activities in the 2nd quarter 2011 was Baht 142.09 million. This was due to the net increase in loan of Baht 241.62 million, dividend payment of Baht 442.66 million, and the increase in minority shareholders' equity of Baht 58.95 million.

- In summary, the Company's main sources of cash were from the sales of coal and ethanol with an ability to collect the bills within the specified credit term.

LIQUIDITY

- (1) The Company's overall liquidity in the first 6-month period of 2011 was considered in good standing having a current ratio as at June 30, 2011 at 1.55 times but a quick ratio as at June 30, 2011 was at 0.85 times, 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 material molasses and cassavas 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 6-month period of 2011 was at 33 days, a decrease from the same period last year by 4 days. The average credit term was at 28 days, an increase from the same period last year by 6 days. The average sales period was at 27 days, a decrease from the same period last year by 8 days but the average period receivable was at 22 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 June 30, 2011 was as low as 0.88 to 1. Therefore, the borrowing capacity remains high should additional funding be required by the Company for project investment in the future, having the interest coverage ratio in the first 6-month period of 2011 at 135.05 times, which was considered quite high ratio and therefore should have no problem concerning with the default of interest payment.
