

LANNA RESOURCES PUBLIC COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

(For the Consolidated Financial Statements of the 3rd Quarter
and the First 9-Month Period of 2011)

REVENUES	Year 2011		Year 2010		Increase/(Decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
3rd Quarter (July-September)						
Sales Revenue from Coal	3,104.78	89.11	1,753.89	87.63	1,350.89	77.02
Sales Revenue from Ethanol	328.29	9.42	197.42	9.86	130.87	66.29
Other Revenue	50.96	1.47	50.08	2.51	0.88	1.76
Total Revenues	3,484.03	100.00	2,001.39	100.00	1,482.64	74.08
9-Month Period (January – September)						
Sales Revenue from Coal	8,497.34	89.73	5,848.43	89.44	2,648.91	45.29
Sales Revenue from Ethanol	843.13	8.90	586.91	8.98	256.22	43.66
Other Revenue	129.70	1.37	103.83	1.58	25.87	24.92
Total Revenues	9,470.17	100.00	6,539.17	100.00	2,931.00	44.82

REVENUES

(1) The Company's total revenues in the 3rd quarter 2011 were Baht 3,484.03 million, an increase from the same period last year by Baht 1,482.64 million or an increase of 74.08 percent, due to the following reasons.

(1.1) Revenue from coal business in the 3rd quarter 2011 was Baht 3,104.78 million or 89.11 percent of the total revenues, which increased from the same period last year by Baht 1,350.89 million or an increase of 77.02 percent. This was due to the increase of coal sale volume and average coal price as compared to the same period last year by 51.75 percent and 16.66 percent, respectively.

(1.2) Revenue from ethanol business in the 3rd quarter 2011 was Baht 328.29 million or 9.42 percent of the total revenues, which increased from the same period last year by Baht 130.87 million or an increase of 66.29 percent. This was due to the increase in sales volume by 40.42 percent as compared to the same period last year but the average ethanol selling price slightly decreased by 0.95 percent as compared with the same period last year.

(1.3) Other revenue in the 3rd quarter 2011 was Baht 50.96 million or 1.47 percent of the total revenues, which increased from the same period last year by Baht 0.88 million or an increase of 1.76 percent. The main reason was the increase in interest income and foreign exchange gain.

(2) The Company's total revenues in the first 9-month period of 2011 were Baht 9,470.17 million, an increase from the same period last year by Baht 2,931 million or an increase of 44.82 percent, due to the following reasons.

(2.1) Revenue from coal sales in the first 9-month period of 2011 was Baht 8,497.34 million or 89.73 percent of the total revenues, which increased from the same period last year by Baht 2,648.91 million or an increase of 45.29 percent. This was due to the increase of coal sale volume and average coal price as compared to the same period last year by 23.70 percent and 17.46 percent, respectively.

(2.2) Revenue from ethanol business in the first 9-month period of 2011 was Baht 843.13 million or 8.90 percent of the total revenues, which increased from the same period last year by Baht 256.22 million or an increase of 43.66 percent. This was due to the increase in ethanol sales volume and average ethanol selling price as compared to the same period last year by 34.16 percent and 0.09, respectively.

(2.3) Other revenue in the first 9-month period of 2011 was Baht 129.70 million or 1.37 percent of the total revenues, which increased from the same period last year by Baht 25.87 million or increase of 24.92 percent. This was due to the increase in interest income, foreign exchange gain and revenue from coal transport and port services of the subsidiary company.

EXPENSES	Year 2011		Year 2010		Increase/(Decrease)	
	Million Baht	% of Sales	Million Baht	% of Sales	Million Baht	% of Sales
3rd Quarter (July-September)						
<u>Coal Business</u>						
Cost of sales	1,805.18	58.14	897.09	51.15	908.09	101.23
Selling and administrative expenses	650.04	20.94	463.34	26.42	186.70	40.29
Financial cost	0.85	0.03	3.60	0.21	(2.75)	(76.39)
Corporate income tax	229.54	7.39	157.02	8.95	72.52	46.19
<u>Ethanol Business</u>						
Cost of sales	329.85	100.48	201.57	102.10	128.28	63.64
Selling and administrative expenses	13.64	4.15	7.85	3.98	5.79	73.76
Financial cost	8.29	2.53	2.98	1.51	5.31	178.19
9-Month Period (January – September)						
<u>Coal Business</u>						
Cost of sales	4,673.92	55.00	3,137.16	53.64	1,536.76	48.99
Selling and administrative expenses	1,773.27	20.87	1,351.05	23.10	422.22	31.25
Financial cost	1.63	0.02	10.61	0.18	(8.98)	(84.64)
Corporate income tax	707.53	8.33	486.73	8.32	220.80	45.36
<u>Ethanol Business</u>						
Cost of sales	815.67	96.74	586.92	100.00	228.75	38.97
Selling and administrative expenses	39.03	4.63	27.95	4.76	11.08	39.64
Financial cost	19.29	2.29	7.96	1.36	11.33	142.34

EXPENSES FROM COAL BUSINESS

(1) Expenses from coal business in the 3rd quarter 2011 increased from the same period last year by Baht 1,164.56 million or an increase of 76.56 percent due to the following reasons.

(1.1) Cost of coal sales in the 3rd quarter 2011 increased from the same period last year by Baht 908.09 million or an increase of 101.23 percent. This was due to increase in coal sales volume as compared to the same period last year by 51.75 percent and increase in average cost of coal sales per ton as compared to the same period last year by 32.61 percent, due to the increase in fuel price.

(1.2) Selling and administrative expenses in the 3rd Quarter 2011 increased from the same period last year by Baht 186.70 million or an increase of 40.29 percent, according to the increase in coal sales revenue.

(1.3) Financial cost in the 3rd quarter 2011 decreased from same period last year by Baht 2.75 million or a decrease of 76.39 percent due to the decrease in loan and interest expenses.

(1.4) Corporate income tax in the 3rd quarter 2011 increased from the same period last year by Baht 72.52 million or an increase of 46.19 percent, according to the increase in profit from coal sales.

(2) Expenses from coal business in the first 9-month period of 2011 increased from the same period last year by Baht 2,170.80 million or an increase of 43.54 percent due to the following reasons.

(2.1) Cost of coal sales in the first 9-month period of 2011 increased from the same period last year by Baht 1,536.76 million or an increase of 48.99 percent. This was due to the increase in coal sales volume as compared to the same period last year by 23.70 percent and increase of average cost of coal sales per ton from the same period last year by 20.44 percent, due to the increase in fuel price.

(2.2) Selling and administrative expenses in the first 9-month period of 2011 increased from the same period last year by Baht 422.22 million or an increase of 31.25 percent, according to the increase in coal sales revenues.

(2.3) Financial cost in the first 9-month period of 2011 decreased from same period last year by Baht 8.98 million or a decrease of 84.64 percent due to the decrease in loan and interest expenses.

(2.4) Corporate income tax in the first 9-month period of 2011 increased from the same period last year by Baht 220.80 million or an increase of 45.36 percent, according to the increase in profit from coal sales.

EXPENSES FROM ETHANOL BUSINESS

(1) Expenses from ethanol business in the 3rd quarter 2011 increased from the same period last year by Baht 139.38 million or an increase of 65.62 percent due to the following reasons.

(1.1) Cost of ethanol sales in the 3rd quarter 2011 increased from the same period last year by Baht 128.28 million or an increase of 63.64 percent. This was due to the increase in ethanol sales volume of 40.42 percent but the average sales cost of ethanol per ton decreased by 9.80 percent due to a lower price of raw material, molasses, which is a major cost, by 18.43 percent as compared with the same period last year. Nonetheless, in the 3rd quarter 2011, there were also the sales cost of deteriorated raw material, cassava, of Baht 63.82 million and allowance for diminution in inventory value of cassava of Baht 10.72 million.

(1.2) Selling and administrative expenses in the 3rd Quarter 2011 increased from the same period last year by Baht 5.79 million or an increase of 73.76 percent according to the increase in ethanol sale revenues.

(1.3) Financial cost in the 3rd quarter 2011 increased from the same period last year by Baht 5.31 million or an increase of 178.19 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 in the first 9-month period of 2011 increased from the same period last year by Baht 251.16 million or an increase of 40.33 percent due to the following reasons.

(2.1) Cost of ethanol sales in the first 9-month period of 2011 increased from the same period last year by Baht 228.75 million or an increase of 36.97 percent. This was due to the increase in ethanol sales volume of 34.16 percent, although the average cost per ton of ethanol decreased by 8.10 percent due to a lower price of raw material, molasses, which is a major cost, by 9.67 percent as compared with the same period last year. Nonetheless, in the 9-month period of 2011, there were also the sales cost of deteriorated raw material, cassava, of Baht 63.82 million and the allowance for diminution in inventory value of cassava of Baht 10.72 million

(2.2) Selling and administrative expenses in the first 9-month period of 2011 increased from the same period last year by Baht 11.08 million or an increase of 39.64 percent due to the increase in ethanol sale revenues.

(2.3) Financial cost in the first 9-month period of 2011 increased from the same period last year by Baht 11.33 million or an increase of 142.34 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	%
3rd Quarter (July-September)						
<u>Year 2011</u>						
Revenues from Sales	3,104.78	100.00	328.29	100.00	3,433.07	100.00
Less Cost of Sales	1,805.18	58.14	329.85	100.48	2,135.03	62.19
Gross Profit	1,299.60	41.86	(1.56)	(0.48)	1,298.04	37.81
<u>Year 2010</u>						
Revenues from Sales	1,753.89	100.00	197.42	100.00	1,951.31	100.00
Less Cost of Sales	897.09	51.15	201.57	102.10	1,098.66	56.30
Gross Profit Margin (%)	856.80	48.85	(4.15)	(2.10)	852.65	43.70
9-Month Period (January – September)						
<u>Year 2011</u>						
Sales Revenues	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
<u>Year 2010</u>						
Revenues from Sales	5,848.43	100.00	586.91	100.00	6,435.34	100.00
Less Cost of Sales	3,137.16	53.64	586.92	100.00	3,724.08	57.87
Gross Profit	2,711.27	46.36	(0.01)	0.00	2,711.26	42.13

GROSS PROFIT

(1) The Company's gross profit in the 3rd quarter 2011 was Baht 1,298.04 million, or a gross profit margin of 37.81 percent of the sales revenue. When compared with the gross profit from the same period last year of Baht 852.65 million or gross profit margin of 43.70 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 2011 was 41.86 percent of the sales revenue, which decreased from the same period last year that had the gross profit margin of 48.85 percent of the sales revenue. Although the average coal price increased by 16.66 percent but average cost of coal sales increased by 32.54 percent.

(1.2) Gross profit margin from the ethanol business in the 3rd quarter 2011 was 1.56 percent of the sales revenue, which decreased from the same period 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 9-month period of 2011 was Baht 3,850.88 million, or a gross profit margin of 41.23 percent of the sales revenue. When compared with the gross profit from the same period last year of Baht 2,711.27 million or gross profit margin of 42.13 percent of sales revenue, the gross profit margin slightly decreased due to the following reasons.

(2.1) Gross profit margin from the coal business in the first 9-month period of 2011 was 45 percent of the sales revenue, which decreased from the same period last year that had the gross profit margin of 46.36 percent of the sales revenue. This is due to the fact that the average of coal price increased at a lower proportion than the increase in average cost of coal sale, as described above.

(2.2) Gross profit margin from ethanol business in the first 9-month of 2011 was 3.26 percent of the sales revenue, which increased from the same period last year, 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	%
3rd Quarter (July – September)						
Profit from Coal Business	231.66	86.90	100.21	70.66	131.45	131.17
Profit (Loss) from Ethanol Business	(17.81)	(6.68)	(9.04)	(6.37)	(8.77)	(97.01)
Share of income from investment in the associate company and other revenues	52.72	19.78	50.66	35.71	2.06	4.07
Net Profit	266.57	100.00	141.83	100.00	124.74	87.95
Net Earnings per Share-Baht per Share (Registered par value of Baht 1 per share)	0.76		0.41		0.35	87.95
9 Month period (January – September)						
Profit from Coal Business	748.36	87.18	457.06	85.07	291.30	63.73
Profit (Loss) from Ethanol Business	(23.51)	(2.74)	(27.24)	(5.07)	3.73	13.69
Share of income from investment in the associate company and other revenues	133.56	15.56	107.43	20.00	26.13	24.32
Net Profit	858.41	100.00	537.25	100.00	321.16	59.78
Net Earnings per Share-Baht per Share (Registered par value of Baht 1 per share)	2.45		1.54		0.91	59.78

NET PROFIT

(1) The Company's net profit in the 3rd quarter 2011 was Baht 266.57 million (net earnings of Baht 0.76 per share). In comparison with the same period last year with the net profit of Baht 141.83 million (net earnings of Baht 0.41 per share), the net profit increased by Baht 124.74 million (net earnings per share increase of Baht 0.35 per share) or an increase of 87.95 percent due to the following reasons.

(1.1) Net profit from the coal business in the 3rd quarter 2011 was Baht 231.66 million or 86.90 percent of the total net profit, which increased from the same period last year by Baht 131.45 million or an increase 131.17 percent due to the increase in coal sales volume and average coal price as described above.

(1.2) Net loss from the ethanol business in the 3rd quarter 2011 was Baht 17.81 million, of which loss increased from the same period last year by Baht 8.77 million or an increase of 97.01 percent, due to the loss from sales and allowance for diminution in inventory value of deteriorated cassava and increase in interest expenses as described above.

(1.3) Net share of income from investment in the associated companies and other revenues for the 3rd quarter 2011 was Baht 52.72 million or 19.78 percent of the total net profit, which increased from the same period last year by Baht 2.06 million or an increase of 4.07 percent due to the increase in interest income and foreign exchange gain as described above.

(2) The Company's net profit in the first 9-month period of 2011 was Baht 858.11 million (net earnings of Baht 2.45 per share). In comparison with the same period last year with the net profit of Baht 537.25 million (net earnings of Baht 1.54 per share), the net profit increased by Baht 321.16 million (net earnings per share increase of Baht 0.91 per share) or an increase of 59.78 percent due to the following reasons.

(2.1) Net profit from the coal business in the first 9-month period of 2011 was Baht 748.36 million or 87.18 percent of the total net profit, which increased from the same period last year by Baht 291.30 million or an increase of 63.73 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 9-month period of 2011 was Baht 23.51 million, of which loss decreased from the same period last year by Baht 3.73 million or a decrease of loss by 13.69 percent, due to the loss from sales and allowance for diminution in inventory value of deteriorated cassava and increase in interest expenses as described above.

(2.3) Net share of income from investment in the associated companies and other revenues in the first 9-month period of 2011 was Baht 133.56 million or 15.56 percent of the total net profit, which increased from the same period last year by Baht 26.13 million or an increase of 24.32 percent due to the increase in interest income, foreign exchange gain and revenue from coal transport and port services of the subsidiary company as described above.

EBITDA

The Company's EBITDA (Earnings before interest expenses, corporate income tax, depreciation and amortization) in the first 9-month period of 2011 was Baht 2,342.97 million. In comparison with the same period last year with the EBITDA of Baht 1,593.12 million, the EBITDA increased by Baht 749.85 million or an increase 47.07 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 9-month period of 2011 was 15.24 percent of the total revenues. When compared with the same period last year with the net profit margin of 14.29 percent of the total revenues, the net profit margin increased by 6.69 percent due to the increase in net profit.

(2) The Company's EBITDA margin in the first 9-month period of 2011 was 24.74 percent of the total revenues. When compared with the same period last year with the EBITDA margin of 24.36 percent of the total revenues, the EBITDA margin increased by 1.56 percent due to the increase in net profit.

(3) The Company's average return on equity in the first 9-month period of 2011 was 28.76 percent. When compared with the same period last year with the average return on equity of 21.07 percent, it increased by 36.52 percent due to the increase in net profit.

(4) The Company's return on total assets in the first 9-month period of 2011 was 21.16 percent. When compared with the same period last year with the return on total assets of 18.70 percent, it increased by 13.19 percent. The return on fixed asset in the first 9-month period of 2011 was at 59.16 percent. When compared with the same period last year with the return on fixed assets of 54.90 percent, it increased by 7.76 percent due to the construction of additional ethanol production line without revenue being generated. The asset turnover ratio was at 1.39 times and when compared with the same period last year with the asset turnover ratio of 1.31 times, it increased by 6.09 percent.

Description	Million Baht		Increase/(Decrease)	
	As at September 30, 2011	As at December 31, 2010	Mil. Baht	%
Total Assets	7,761.48	5,882.62	1,878.86	31.94
Total Liabilities	3,575.20	2,698.73	876.47	32.48
Total Shareholders' Equity	4,186.28	3,183.89	1,002.39	31.48
Book Value-Baht per Share (Registered par value of Baht 1 per share)	9.56	7.50	2.06	27.45

ASSETS : The Company's total assets as at September 30, 2011 increased from the end of 2010 by Baht 1,878.86 million or an increase of 31.94 percent, consisting of:

(1) Current assets increased from the end of 2010 by Baht 1,684.95 million or an increase of 62.61 percent, due to the following reasons.

(1.1) Cash and cash equivalent increased from the end of 2010 by Baht 406.99 million or an increase of 49.08 percent.

(1.2) Accounts receivable increased from the end of 2010 by Baht 288.75 million or an increase of 33.64 percent due to the increase in sales revenues.

(1.3) The inventories increased from the end of 2010 by Baht 527.99 million or an increase of 196.56 percent, due to an increase in the coal inventory, as well as the increased purchase of the raw materials, molasses and cassava for ethanol production of the new plant.

(1.4) Other current assets increased from the end of 2010 by Baht 461.22 million or an increase of 62.77 percent due to the increase in the prepaid corporate income tax.

(2) Non-current assets increased from the end of 2010 by Baht 193.91 million or an increase of 6.08 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 September 30, 2011 increased from the end of 2010 by Baht 876.47 million or an increase of 32.48 percent, consisting of:

(1) Current liabilities increased from the end of 2010 by Baht 886.50 million or an increase of 47.42 percent, due to the following reasons.

(1.1) Trade accounts payable increased from the end of 2010 by Baht 75.59 million or an increase of 22.08 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 2.64 million.

(1.3) Other current liabilities increased from the end of 2010 by Baht 546.91 million or an increase of 53.72 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 10.03 million or a decrease of 1.21 percent due to the decrease in long term loan of the subsidiary company.

TOTAL SHAREHOLDERS' EQUITY : The total shareholders' equity of the Company as at September 30, 2011 increased from the end of 2010 by Baht 1,002.39 million or an increase of 31.48 percent, resulting in the increase of share's book value from Baht 7.50 per share to Baht 9.56 per share. This was due to the increase in net profit of Baht 858.41 million, dividend payment of Baht 192.50 million, decrease of translation adjustments in the financial statements by Baht 54.55 million and increase of minority shareholders' equity of the subsidiary companies by Baht 281.93 million.

CASH FLOWS (Unit : Million Baht)	First 9-Month Period (January – September)	
	Year 2011	Year 2010
Cash Flows from (used in) Operating Activities	1,073.98	1,048.15
Cash Flows from (used in) Investing Activities	(470.44)	(910.97)
Cash Flows from (used in) Financing Activities	(232.51)	242.13
Translation Adjustments in Financial Statements	35.96	(19.82)
Net Increase (Decrease) in Cash	406.99	359.49
Cash at the beginning of the period	829.22	489.59
Cash at the end of the period	1,236.21	849.08
Net cash flow return on equity	33.73	43.34

- The Company's net cash from in operating activities in the first 9-month period of 2011 was at Baht 1,073.98 million, due to:

- (1) Net income before corporate income tax and interest payment of Baht 2,151.22 million.

- (2) Transactions that did not affect the cash such as the depreciation and amortization of assets of Baht 199.13 million, of which were mainly the depreciation and amortization of overburden removal of coal mines in Indonesia.

- (3) Operating assets increased by Baht 1,002.80 million due to the increase in accounts receivable and inventories.

- (4) Operating liabilities increased by Baht 426.42 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 5.93 million but there were increases in interest expenses and corporate income tax of Baht 706.16 million.

- The Company's net cash used in investment activities in the first 9-month period of 2011 was Baht 470.44 million due to the increase in property, plant and equipment of Baht 242.17 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 87.69 million.

- The Company's net cash used in financing activities in the 3rd quarter 2011 was Baht 232.51 million. This was due to the net increase in loan of Baht 239.37 million, dividend payment of Baht 563.57 million, and the increase in minority shareholders' equity of Baht 67.72 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 9-month period of 2011 was considered in good standing having a current ratio as at September 30, 2011 at 1.59 times but a quick ratio as at September 30, 2011 was at 0.86 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 9-month period of 2011 was at 36 days, a decrease from the same period last year by 14 days. The average credit term was at 29 days, an increase from the same period last year by 8 days. The average sales period was at 26 days, an increase from the same period last year by 8 days but the average period for trade accounts payable was at 19 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, 2011 was as low as 0.85 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 9-month period of 2011 at 112 times, which was considered quite high ratio and therefore should have no problem concerning with the default of interest payment.
