BANPU

# Management's Discussion and Analysis

For the year ended

31 December 2016

Banpu Public Company Limited

ROBECOSAM Sustainability Award Gold Class 2016

ROBECOSAM Sustainability Award Industry Leader 2016

ROBECOSAM Sustainability Award Industry Mover 2016

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Banpu was selected for the second year as a member of the 2015 Dow Jones Sustainability Indices (DJSI).

No. BP 0217/007

Bangkok Office

23 February 2017

Re: Management's Discussion and Analysis of the consolidated financial statements for the year ended 31 December 2016

Attention: President

The Stock Exchange of Thailand

Attachment: 2 sets of the audited of consolidated financial statements for the year ended 31 December 2016

Banpu Public Company Limited ("the company") hereby submits 2 sets of consolidated financial statements for the year ended 31 December 2016 which were audited by auditors to the Stock Exchange of Thailand and accordingly to the general public.

The company's management would like to explain its performance for the year ended 31 December 2016 in comparison with the year ended 31 December 2015 and its statement of financial position as of 31 December 2016 compared with the statement of financial position as of 31 December 2015. The analysis topics are as follows;

1. Industry Analysis of Coal producers' operating performance in Coal industry
2. Company performance analysis
3. Consolidated statement of financial position
4. Consolidated statement of cash flows
5. Management Discussion & Analysis

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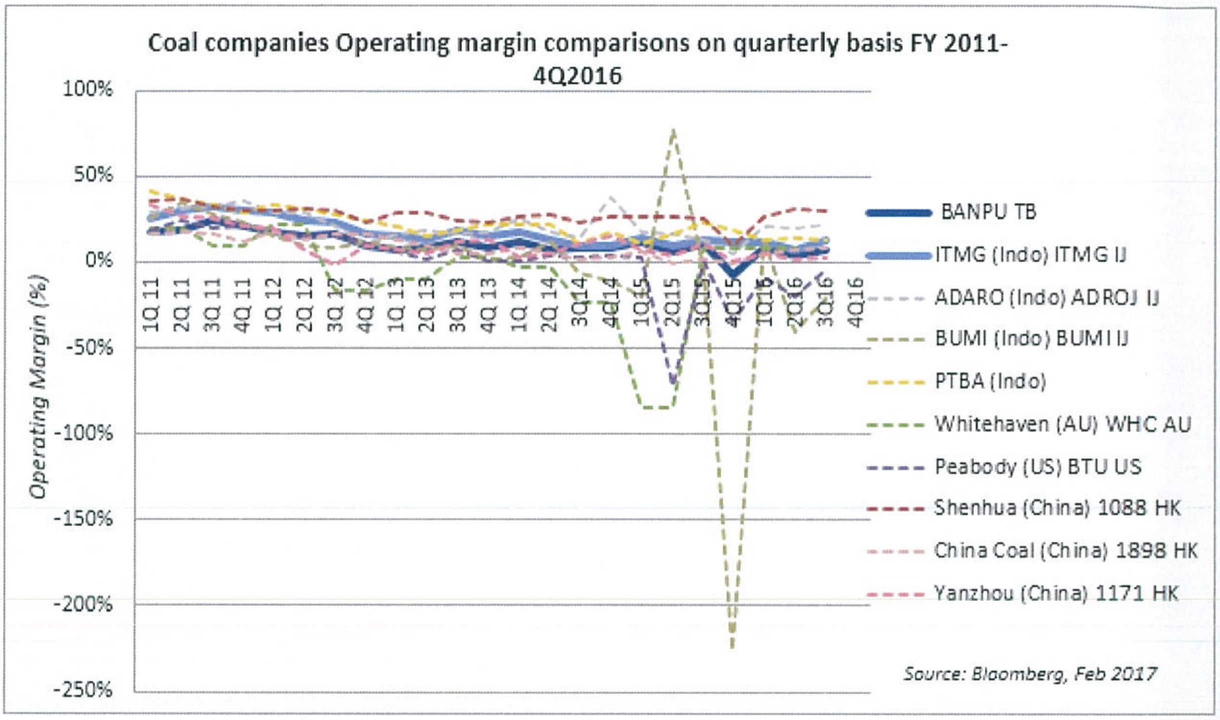
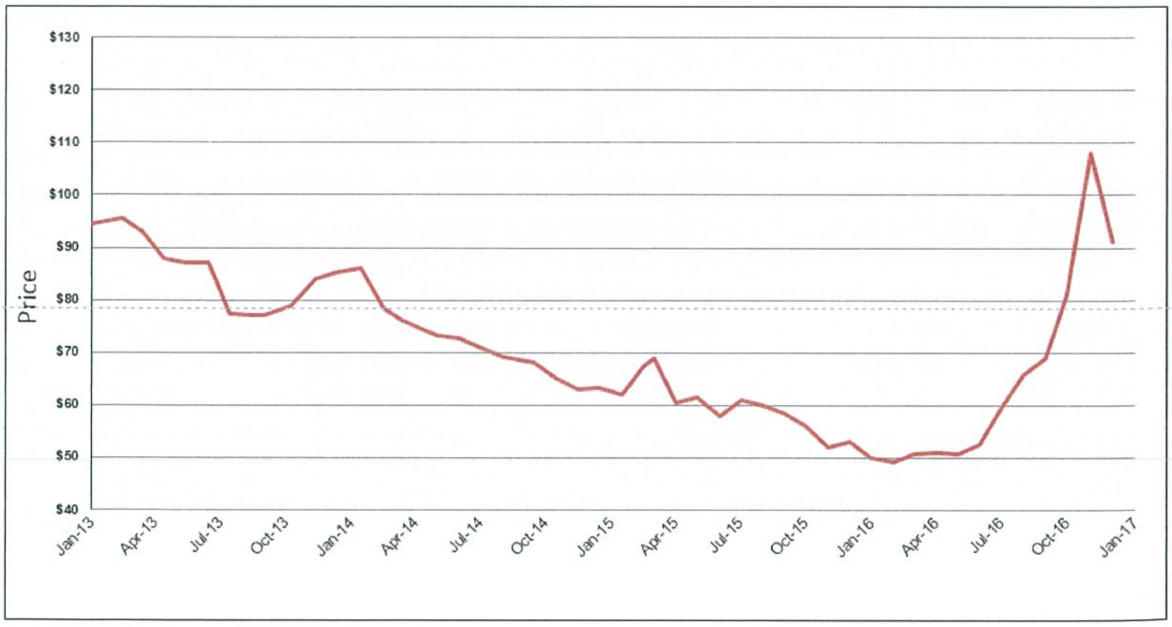
1. Industry Analysis - Coal producers 'operating performance in Coal industry

The market thermal coal price has gradually rebounded starting from July 2016 after coal price continuously declined since 2013. The following presentations illustrate the operating margin of major coal companies in each country and the coal price index;




Global Coal : Newc Index US$ per ton (from 1 Jan 13 to 31 Dec 16)



2. Company Performance Analysis

The analysis and explanation of company performance for of the year ended 31 December 2016 and 2015 is as follows:

Consolidated statements of Income for the year ended 31 December 2016 and 2015

| Consolidated financial performance (Unit: Million USD) | 2016 | 2015 |
|---|---|---|
| Sales | 2,259 | 2,477 |
| Cost of sales | (1,511) | (1,672) |
| Gross margin | 748 | 805 |
| Selling expenses | (180) | (228) |
| Administrative expenses | (160) | (167) |
| Royalty fee | (219) | (239) |
| Profit sharing from associates | 118 | 52 |
| Other income (expense) | (11) | (11) |
| Financial costs | (130) | (131) |
| Profit before tax | 166 | 81 |
| Income tax | (69) | (98) |
| Net profit for the year | 97 | (17) |
| Owners of the parent | 47 | (43) |
| Non-controlling interest | 50 | 26 |
| Basic Earnings (Loss) per share(Unit: USD) | 0.013 | (0.017) |
| Diluted Earnings (Loss) per share (Unit: USD) | 0.013 | (0.017) |

2.1 Sales revenue reported at $2,259 million (equivalent Baht 79,737 million), a decrease of $218 million or 9 % compared to last year, was mainly from a decrease in coal selling price according to the declining of the global coal price. Details of the company's revenue are as follows:

- Revenue from coal sales of $2,063 million accounted for 91% of total sales revenue. The revenue from coal sales includes:
  - Sales revenue from Indonesia coal mines of $1,403 million;
  - Sale revenue from Australia coal mine of $660 million.
- Sales of power, steam and others of $181 million represented 8% of total sales revenue.

| Revenue | 2016 (Mil USD) | 2015 (Mil USD) |
|---|---|---|
| Coal Business | 2,063 | 2,285 |
| Power/Steam Business | 155 | 169 |
| Gas | 15 | - |
| Others | 26 | 23 |
| Total | 2,259 | 2,477 |

- Sales of Gas business of $15 million has started to be included into the Group performance in late of the first quarter of 2016.

Coal Business

| Source of Coal | *2016* Sales Vol. Mil Tonne | *2015* Sales Vol. Mil Tonne | *2016* Avg. Price Per Tonne | *2015* Avg. Price Per Tonne | *2016* Avg. Cost Per Tonne | *2015* Avg. Cost Per Tonne |
|---|---|---|---|---|---|---|
| Indonesia Mine | 26.83 | 28.16 | US$52.45 | US$58.35 | US$32.16 | US$37.43 |
| Australia Mine | 13.20 | 12.99 | A$67.31 | A$65.90 | A$51.70 | A$49.41 |
| Total | 40.03 | 41.15 | | | | |

- Coal sale volume for the year of 2016 was 40.03 million tonnes, decreased by 1.12 million tonnes or 3%, consisted of 1.33 tonnes decrease by Indonesia mine while 0.21 million tonnes increase contributed by Australia mines, respectively.
- Average selling price per tonne was $51.53, compared to prior year average selling price of $55.53 per tonnes, decreased by 7.20% which mainly from Indonesia mines as result of a continued declining of global coal price from prior year especially during the first 9 months of this year.

Australia mines' average selling price was A$67.31 per tonne, compared to prior year average selling price of A$65.90 per tonne, an increase of A$1.41 per tonne, mainly the net result of improved domestic contract prices and lower export sales from the decline in global coal market price compared to last year.

| Australia mines | Sales volume (Mil Tonnes) | | Average Selling price (A$/Tonne) | |
|---|---|---|---|---|
| | *2016* | *2015* | *2016* | *2015* |
| Domestics sales | 8.37 | 8.03 | 60.89 | 56.88 |
| Export sales | 4.83 | 4.97 | 78.43 | 80.48 |
| Total | **13.20** | **13.00** | **67.31** | **65.90** |

Average domestic sale price per tonne was A$60.89, increased by A$ 4 as a result from higher price contract sales as more legacy contracts expire and are replaced by new higher price contract sales. For export sales, average selling price per tonne was A$78.43, decreased by A$2.05 from a declining of market coal price during the year offset by the impact of a weakening Australian dollar against US dollar compared to 2015. Average AUD/USD in 2016 was 0.74 (2015: 0.75).

## Power Business

| | Power Sales (Mil USD) | | Steam & Others (Mil USD) | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| CHP (Combined Heat & Power ) Plants | 90.45 | 105.36 | 63.23 | 60.08 |
| Solar Power Plants | 2.93 | - | - | - |
| Total | **93.38** | **105.36** | **63.23** | **60.08** |

Power and steam sales of 3 CHP power plants in China in 2016 were $153.68 million, $11.76 million decreased from last year. Mainly was from a decrease of power tariff rate and steam price compared to last year. Average power tariff was RMB 0.36 per kWh (2015: RMB 0.39 per kWh) and steam price was RMB 90 per tonne (2015: RMB 97 per tonne), the tariff decrease was the result of a flow through of the lower coal cost that is the major fuel of power plants.

2.2 Cost of sales $1,511 million, decreased by $161 million or 10% which was mainly from a decrease of sale volume and average cost of sales. Average cost of sales per tonne of Indonesia mines reduced by $5.27 which was mainly from lower diesel cost. Average diesel cost per liter in 2016 was $0.42 per liter (2015: $0.53 per liter).

Average cost of sales per tonne of Australia mines increased by A$2.29 compared to last year. The unfavorable impact was from 0.68 million production tonnes less than last year resulting in a higher cost per tonne. (Production tonne in 2016 to 2015: 12.36 MT to 13.04 MT).

2.3 Gross profit reported at $748 million, a decrease of $57 million or 7%. 2016 Gross profit margin was calculated at 33% derived from 33% of coal business and 35% of power business (2015: Gross profit was 32%, derived from 32% of coal business and 36% of power business). A decrease in coal business gross margin was a net result of a declining of global coal market price and more cost saving as per above mentioned in 2.1 and 2.2. On the other hand, the lower coal price was favorable for coal fired power business. However, power business's gross margin slightly decreased from last year was due to lower of revenue resulting from a reduced power tariff and steam price and also an increase of production cost due to higher of coal cost during the fourth quarter of this year.

2.4 Selling expenses reported at $180 million, a decrease of $48 million or 21%, resulted from a decrease of export sale volume and also cost reduction program that has been continuously implemented throughout the Group.

2.5 Administrative expenses reported at $160 million, a decrease of $7 million or 4% was net impact of an increase of fees relating to a subsidiary's initial public offering during this year of $5 million and a decrease of expenses resulting from cost reduction program that has continuously implemented throughout the Group.

2.6 Royalty fees reported at $219 million, a decrease of $20 million or 8% was due to the lower coal selling price.

2.7 Equity income from associates reported at $118 million was from profit sharing of BLCP of $58 million, Hongsa power plant & Phu Fai mine of $42 million and China coal business and others of $18 million.

Net equity income recognized increased by $66 million or 127% compared to last year, mainly from the net results of increased profit sharing from Hongsa power plant & Phu Fai by $47 million resulted from full operation for all 3 units while only operated 2 units in late 2015 and from China coal business and others of $22 million resulted from an increase of coal price in China during last quarter of this year, offsetting with a decrease of the profit sharing from BLCP of $3 million.

2.8 Other expense of $11 million was comprised of;

2.8.1 Interest income of $6 million.

2.8.2 Loss from derivative financial instruments of $32 million which comprised of :

- Net realized loss of $31 million, which consisted of loss from coal swap & gasoil hedging, interest rate swap, forward foreign exchange contracts were $5 million, $9 million and $17 million, respectively.
- Net unrealized loss of $1 million, which was net impact of loss from a change in fair value of gasoil hedging contracts by $2.52 million and gain from a change in fair value of interest rate swap and cross currency swap contracts by $0.74 million and $0.35 million, respectively.

2.8.3 Net loss on exchange rate of $12 million was net result between realized gain on foreign exchange rate during the year of $6 million and net unrealized losses on foreign exchange rate of $18 million as a result of an appreciation of Thai Baht currency against US Dollars compared to last year.

2.8.4 Management fees and others of $27 million.

2.9 Corporate income tax of $69 million, decreased by $29 million compared to last year.

2.9.1 An increase of $5 million from an increase of operating profit

2.9.2 A decrease of $16 million from a net increase of deferred tax assets

2.9.3 A decrease of $18 million was due to there was withholding tax on dividend income last year that was none in this year and corporate income tax adjustment relating to R&D expense of a subsidiary in Australia by $27 million and $9 million, respectively.

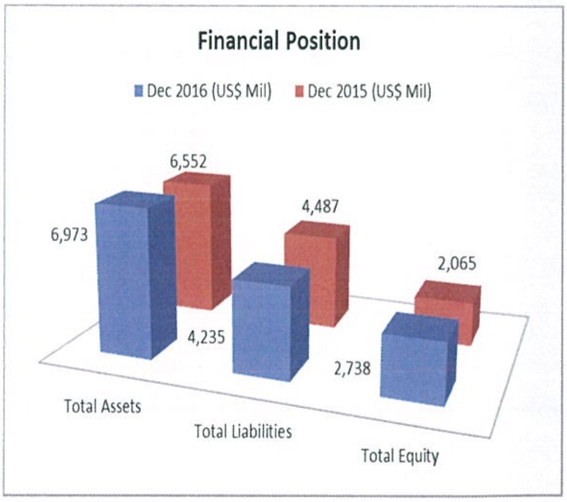
2.10 Net profit for the year ended 31 December 2016 reported at $47 million, increased from last year by $90 million.

Basic Earnings per share reported at $0.013 per share, equivalent to Baht 0.462 per share (2015: $(0.017) per share or equivalent Baht (0.594) per share).

3. **Statements of Consolidated Financial Position as of 31 December 2016 in comparison with Statements of Consolidated Financial Position as of 31 December 2015**

3.1 Total assets of $6,973 million, an increase of $420 million compared to total assets as of 31 December 2015 with details described below:

- Cash and cash equivalents of $455 million, an increased $59 million or 15% (See explanation in # 4 Consolidated Statement of Cash Flow)
- Current and non-current portions of dividends receivables from related parties of $225 million were from a domestic power business, increased by $3 million that was net result of additional declared dividend and received dividend during this year by $103 million and $54 million, respectively. Also there was a loss from foreign exchange translation by $46 million.




- Short-term and long-term loans to other companies of $19 million and $23 million, respectively. Mainly represented loans to solar projects in China that are in process of transferring ownership to the Group.
- Investment in joint venture and associates of $891 million, increasing by $247 million or 38% from investment in Hongsa power plant of $200 million ,China power plant of $23 million and Singapore of $12 million. Net of profit sharing recognized

from associates and dividend received during this year by $24 million and loss from foreign exchange translation by $12 million.

- Property plant and equipment of $1,284 million, an increased $104 million from purchased equipment of subsidiaries in Indonesia and Australia of $107 million and from business acquisition of $181 million netting with disposal and write off $5 million, depreciation expenses for the year of $154 million and gain from foreign exchange translation of $25 million.
- Other investments of $48 million, an increase of $28 million was from additional investment in solar projects in Japan in form of TK (TOKUMEI KUMIAI) agreements of $24 million and gain on fair value measurement of $2 million. Offset with disposal during the year of $0.8 million, reclassification item to short-term investments of $3 million and loss on foreign exchange translation and others of $6 million.
- Other non-current assets of $308 million was mainly from prepaid income tax of subsidiaries in Indonesia by $195 million and advanced to solar projects in Japan that are under development stage by $ 37 million.

3.2 Total liabilities of $4,235 million, a decreased by $253 million compared to total liabilities as of 31 December 2015 with details described below:

- Short-term loans from financial institutions of $283 million, an increase of $53 million was from addition of $1,224 million and repayment of $1,176 million and loss from foreign exchange translation and others of $5 million
- Current portion of long-term loans of $330 million, a net increase of $145 million or 78% was net impact between a reclassification of long term portion to current portion of $367 million, repayment during the year of $225 million and loss from foreign exchange translation and others of $3 million.
- Current portion of debenture decreased by $58 million or 100% was due to redemption during the year and there was not any debentures portion which will be due within next 12 months.

- Accrued overburden and coal transportation expenses of $85 million, a decrease of $32 million, mainly was from Indonesia coal business operations.
- Long-term loans of $1,384 million, net decreased by $303million was from new borrowing of $78, repayment of $10 million, reclassification to current portion $367 million, including, gain from foreign exchange translation and others of $3 million, deferred payment of financing services fee $3 million, and amortization of deferred financing services fee $2 million.
- Debenture of $1,188 million, an increased by $8 million was from a loss on foreign exchange translation at end of the year.
- Derivative liabilities of $83 million represented unrealized loss from change in fair value of interest rate swap and cross currency swap contracts $12 million and $71 million, respectively.

3.3 Shareholders' equity of $2,738 million, a net increase of $673 million was due to;

- An increase of $49 million from net profit of the year.
- An increase of $335 million from an increase of share capital
- An increase of $42 million from non-controlling interests
- An increase of $360 million from change in shareholding interest of subsidiaries
- A decrease of $86 million from dividend payment
- A decrease of $27 million from loss on subsidiaries' foreign exchange translations and others

3.4 Net debt-to-equity as of 31 December 2016 reported at 0.99 times for the consolidated statement of financial position (31 December 2015: 1.35 times)

4. **Statements of Consolidated Cash Flows for the year ended 31 December 2016**

Statement of consolidated cash flow for the year ended 31 December 2016 recorded an increase of net cash flow by $59 million (included the effect from exchange rate translation loss of $0.1 million) from 31 December 2015. The consolidated cash flows are divided into:

4.1 Net cash inflow from operation of $142 million; with major operating items as follows;

- Collection from sale of $2,448 million
- Payment to contractors and suppliers of $1,359 million
- Interest payment of $129 million
- Payment of corporate income tax of $145 million
- Royalty payment of $210 million
- Others of $ 605 million

4.2 Net cash outflow from investing activities of $521 million; with major items as follows;

- Payment in machine, equipment and project in progress of $201 million
- Payment for investments in joint ventures & others and short-term investments of $262 million
- Payment for new acquisition company $110 million
- Payment for loan to related companies and others of $92 million
- Dividend received from joint venture of $68 million
- Receiving from short-term investment of $42 million
- Receiving from interest income and others of $34 million.

4.3 Net cash inflow from financing of $438 million; comprised of

- Received from increase share capital of $335 million
- Cash receipts from increase in share capital of a subsidiary from non-controlling interests of $381 million
- Proceeds from short-term, long-term loans from banks of $1,302 million
- Dividend payment of $86 million
- Payment for treasury stocks of a subsidiary of $19 million
- Repayment of bank loan, long-term loan and Debenture of $1,475 million

5. Management Discussion and Analysis

The 2016 consolidated financial statement reports a net profit of USD 47 million. The earnings represent a turnaround from a net loss of USD 43 million in the previous year due primarily to improvement in coal operation. Excluding the impact from foreign exchange translation, net profit improved to USD 59 million against a net loss of USD 67 million in the previous year. Also the 2016 net profit included an additional tax expense of USD 9 million resulting from the settlement of a long running tax dispute in Australia relating to a period prior to 2010.

Group EBITDA for 2016 was USD 540 million, increasing 15% from previous year. EBITDA from coal was USD 378 million (+8%), EBITDA from power was USD 155 million (+31%) and EBITDA from natural gas business was USD 7 million.

For 4Q16 the net profit was USD 43 million compared to the net profit of USD 2 million in previous quarter and a net loss of 41 million in the previous year.

In 4Q16 Group EBITDA totaled USD 216 million (+88% QoQ, +88% YoY). EBITDA from coal was USD 168 million (+89% QoQ, +131% YoY) and EBITDA from power was USD 45 million (98% QoQ, +10% YoY), and EBITDA from natural gas business was USD 2 million ( -10% QoQ)

The strong recovery in coal market during late 2016 led to vast improvement in coal operations particularly during 4Q16. In this quarter, Coal Indonesia achieved 6.38 million tonnes coal sale or 5% decrease as planned with the average selling price (ASP) reaching USD 62.9 per tonne or 22% increase from previous quarter. The production cost was managed at an efficient level with the average cost of sale at USD 31.7 per tonne, slightly lower by 3% QoQ due to lower stripping ratio at the biggest mine Indominco. The average gross profit margin expanded to 50% in this quarter from 36% in the previous quarter as a result of higher ASP.

Australia coal sale volume was 3.13 million tonnes in 4Q16 which decreased 14% QoQ due to a 3-week stoppage at Mandalong for a planned Longwall changeover which reduced its sale volume to 1.1 million tonnes compared to 1.8 million tonnes in the previous quarter. Springvale performed well with new daily production record. Its sale volume of 0.64 million tonnes in this quarter more than doubled from the previous quarter and compensated for the lower volume from Clarence where mining panels are entering into difficult zones. The ASP for this quarter was USD 56.6 per tonne, rising 11% from previous quarter from price uplift in the export market which made up 43% of the total sale volume. The average cost of sale adjusted up 14% QoQ to USD 45.1 per tonne due to Mandalong's lower production that inflated its unit cost. The gross profit margin was 20% compared to 22% in the previous quarter.

China coal reported an equity income of USD 31.2 million which continued to improve from an equity income of USD 2.7 million in the previous quarter due mainly to higher domestic coal prices.

Power business reported contribution from the China Combined Heat and Power (CHP) plants with a healthy net profit of USD 8.1 million due to high seasonal demand for both power and steam products. BLCP reported an equity income similar to the previous quarter at USD 9.5 million. Lastly Hongsa power plant delivered a higher equity income of USD 24.3 million due to higher availability factors that led to higher revenues for all 3 units. The Hongsa equity income also includes an FX gain of USD 9.4 million due to the weakening Thai Baht during the period.

Please be informed accordingly,

Sincerely yours,

Somruedee Chaimongkol

Chief Executive Officer

Ms. Arisara Sakoongaravek

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