BANPU

# Management's Discussion and Analysis

For the third quarter ended

30 September 2018

Banpu Public Company Limited

ROBECOSAM
Sustainability Award
Gold Class 2018

ROBECOSAM
Sustainability Award
Industry Mover 2018

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

Banpu has been recognized as a member of
Dow Jones Sustainability Indices (DJSI) since 2014.

BANPU

No. 0118/ 086

Bangkok Office

9 November 2018

Re: Management's Discussion and Analysis of the consolidated financial statements for the third quarter ended 30 September 2018

Attention: President

The Stock Exchange of Thailand

Banpu Public Company Limited ("the company") hereby submits a consolidated financial statements for the quarter ended 30 September 2018 which were reviewed 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 three months ended 30 September 2018 in comparison with the same period ended 30 September 2017 and its statement of financial position as of 30 September 2018 compared with the statement of financial position as of 31 December 2017. 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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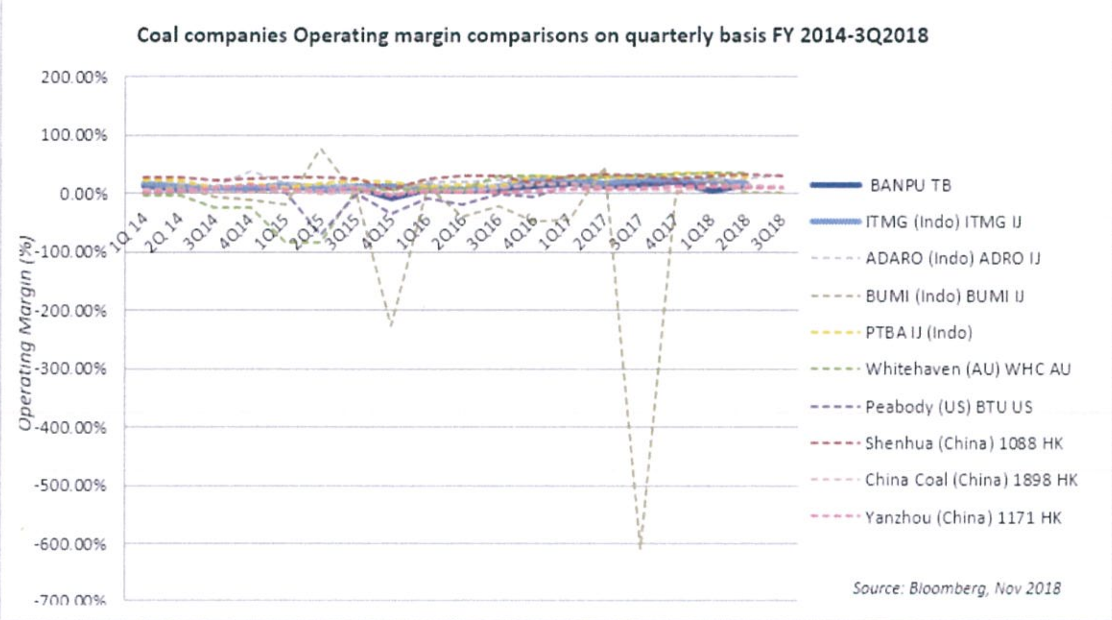
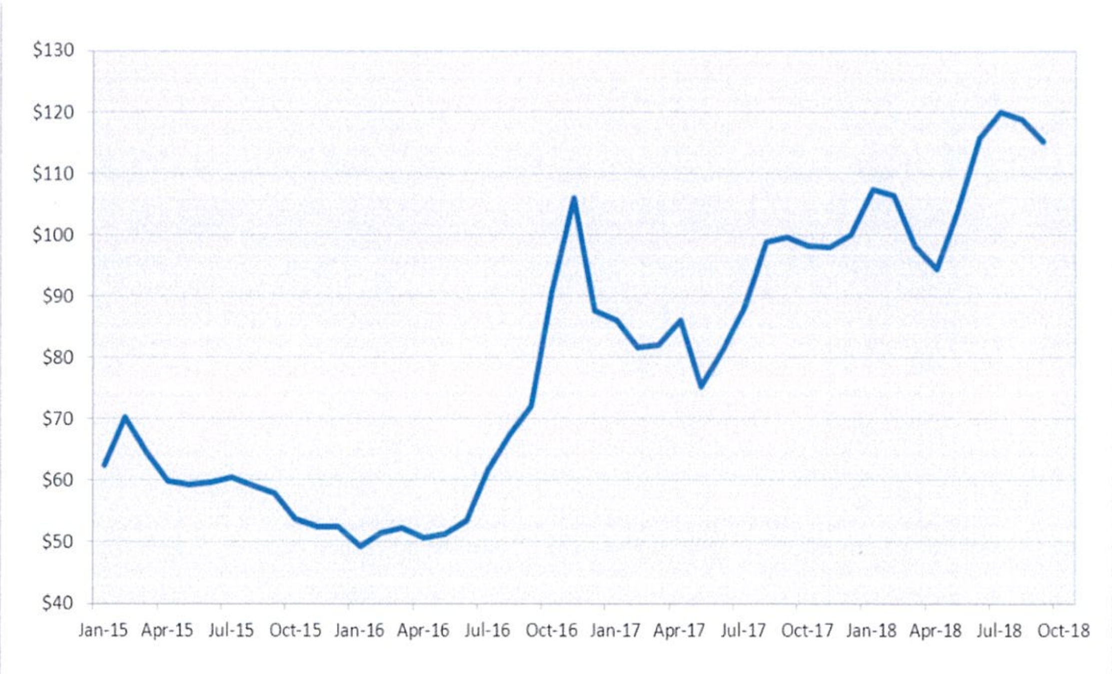
1. Industry Analysis - Coal producers' operating performance in Coal industry

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 Tonne (from Jan 2015 – September 2018)



2. Company Performance Analysis

The analysis and explanation of the Group's performance for the third quarter ended 30 September 2018 and 2017 as follows:

Consolidated statements of Income for the third quarter ended 30 September 2018 and 2017

| Consolidated financial performance (Unit: Million $) | 3Q18 | 3Q17 |
|---|---|---|
| Sales | 965 | 720 |
| Cost of sales | (609) | (422) |
| **Gross profit** | **356** | **298** |
| Selling expenses | (49) | (42) |
| Administrative expenses | (53) | (66) |
| Royalty fee | (84) | (68) |
| Profit sharing from joint ventures and associates | 65 | 60 |
| Other income (expense) | (42) | (28) |
| Financial costs | (45) | (35) |
| Profit before tax | 148 | 119 |
| Income tax | (36) | (31) |
| Net profit for the period | 112 | 88 |
| Owners of the parent | 76 | 61 |
| Non-controlling interest | 36 | 27 |
| Earnings per share (Unit: USD) | 0.015 | 0.012 |

2.1 Sales reported at $965 million (equivalent Baht 31,806 million), an increase of $245 million or 34% compared to the same quarter of last year, was mainly from an increase of coal sales volume and coal selling price. Details of the Group's revenue are as follows:

- Revenue from coal sales of $846 million accounted for 88% of total sales revenue. The revenue from coal sales comprise of :
  - Sales from Indonesia coal mines of $593 million.
  - Sales from Australia coal mines of $244 million.
  - Sales from others of $9 million.
- Sales of power and steam and others of $80 million represented 8% of total revenue from CHP plant and solar power plant in China.
- Sales of gas business of $39 million represented 4 % of total revenue.

| Revenue (Unit: Million $) | 3Q18 | 3Q17 |
|---|---|---|
| Coal business | 846 | 669 |
| Power & Steam business | 37 | 40 |
| Gas business | 39 | 8 |
| Others | 43 | 3 |
| Total | 965 | 720 |

Coal Business

| *Source of Coal* | 3Q18 Sales Vol. Mil Tonnes | 3Q17 Sales Vol. Mil Tonnes | 3Q18 Avg. Price Per Tonne | 3Q17 Avg. Price Per Tonne | 3Q18 Avg. Cost Per Tonne | 3Q17 Avg. Cost Per Tonne |
|---|---|---|---|---|---|---|
| Indonesia Mine | 6.65 | 5.59 | US$ 89.12 | US$ 75.57 | US$ 46.40 | US$ 43.00 |
| Australia Mine | 3.31 | 3.40 | A$ 100.63 | A$ 90.09 | A$ 81.05 | A$ 54.33 |
| Total | 9.96 | 8.99 | | | | |

- Coal sale volume of 3Q18 was 9.96 million tonnes, increased by 0.97 million tonnes or 11%, from an increase of sales volume from Indonesia mines by 1.06 million tonnes and a decrease of sales volume from Australia mines by 0.09 million tonnes.

- Average selling price of 3Q18 was $83.96 per tonne, increased by $10.13 per tonne or 14% (3Q17: $73.83 per tonne), as a result of increasing in the global thermal coal market price compared to previous year. Indonesia mines' average selling price was $89.12 per tonne which increased by $13.56 per tonne or 18% from last year.

  Australia mines' average selling price of 3Q18 was A$100.63 per tonne, increased by A$10.54 per tonne or 12% (3Q17: A$90.09 per tonne). An increase was mainly from a higher of selling price, especially from export sales, as a result of a rising of global coal market price compared to last year.

| Australia mines | Sales volume (Mil Tonnes) | | Average Selling price (A$/Tonne) | |
|---|---|---|---|---|
| | *3Q18* | *3Q17* | *3Q18* | *3Q17* |
| Domestics sales | 1.97 | 2.07 | 80.10 | 82.33 |
| Export sales | 1.34 | 1.33 | 131.51 | 102.22 |
| Total | 3.31 | 3.40 | 100.63 | 90.09 |

Average domestic selling price per tonne was A$ 80.10, decreased by A$2.23 as a result from a decrease of sales proportion from high price contracts due to production shortfall compared to the plan. For export sales, average selling price per tonne was A$131.51, increased by A$29.29 which was from a rising of market coal price.

Power Business

| | Power Sales (Mil $) | | Steam & Others (Mil $) | |
|---|---|---|---|---|
| | 3Q18 | 3Q17 | 3Q18 | 3Q17 |
| CHP (Combined Heat & Power) Plants | 16.59 | 18.91 | 14.10 | 15.28 |
| Solar Power Plants | 5.91 | 5.44 | - | - |
| Total | 22.50 | 24.35 | 14.10 | 15.28 |

Power, steam and others sales of 3 CHP plants in China were $30.69 million, decreased by $3.50 million compared to last year. A decrease was a net impact between a decrease of power and steam sales volume and an increase of average steam price. Average power tariff was RMB 0.38 per kWh same as prior year (3Q17: RMB 0.38 per kWh), and an average steam price per tonne was RMB 100.46 (3Q17: RMB 94.34), increased by RMB 6.12 per tonne or 6%. The higher price was the effects from a higher of coal price which was a main fuel source of CHP plants and also get subsidy from government according to comply with an ultra-low emission under environmental regulations. Also there was a foreign exchange impact from a depreciation of RMB currency against USD currency during this quarter, it impacted lessen of revenue in terms of USD currency when converted from revenue in RMB currency. Average exchange rate of RMB/USD in 3Q18 was 6.80 (3Q17: 6.66).

2.2 Cost of sales $609 million, increased by $187 million or 44% which was from higher cost of sales in coal business, gas business and others of $134 million, $14 million and $39 million, respectively.

Coal business' cost of sales increased this quarter by $134 million that was from an increase of sale volume and average cost per tonne compared to previous year. Indonesia mines' average cost per tonne increased by $3.40. Such average cost per tonne includes cost of purchased coal from other sources for coal blending to match with customers demand. In this period, those purchased coal volume was higher than last year, together with a higher of global coal market price, these affected an increase of average cost per tonne by $1.88. In addition, cost of production per ton also increased by $1.52 as a result from a rising of global market of oil price during the period. Average diesel price per liter was $0.67 (3Q17: $0.50).

| Cost of sales (Unit: Million $) | 3Q18 | 3Q17 |
|---|---|---|
| Coal business | 517 | 383 |
| Power & Steam business | 31 | 33 |
| Gas | 19 | 5 |
| Others | 42 | 1 |
| Total | 609 | 422 |

Australia mines' average cost per tonne increased by $26.72 compared to prior year. Such average cost per tonne also includes cost of purchased coal from other sources for coal blending to match with customers demand. In this period, those purchased coal volume was higher than last year, together with a higher of global coal market price. These affected an increase of average cost per tonne by A$17.22 and also an increase of own production cost by $9.50 per ton due to less production volume compared to prior year because of difficulty mining conditions and from relocation of Longwall equipment of Mandalong and Springvale mines during this quarter.

2.3 Gross profit reported $356 million, an increase of $58 million or 19%. Gross profit margin this quarter was at 37% derived from 39% of coal business and 16% of power business (3Q17: Gross profit was 41%, derived from 43% of coal business and 18% of power business). A rising of market coal price was unfavorable to cost of coal fired power business, then it affected to a decrease of power business's gross profit compared to the same period of last year.

2.4 Selling expenses reported $49 million, an increase of $7 million or 17% was from Indonesia mine of $22 million that represented expenses relating to Domestic Market Obligation which has been effective since the beginning of 2018 by $12 million and an increase of relating selling expenses according to an increase of export coal sales of Indonesia mines. Whereas, a decrease of selling expense from Australia mines of $15 million due to lower proportion of export own coal sales compared to 3Q17 and from over-recorded adjustment transaction of 2Q18 in 3Q18 of $7 million.

2.5 Administrative expenses reported at $53 million, a decrease of $13 million or 20% was mainly from expenses of 3Q17 that was nil balance in 3Q18, those were land tax of a subsidiary in Indonesia of $9 million, provision for doubtful account of loan receivables of a subsidiary of $2 million and others of $2 million.

2.6 Royalty fees reported at $84 million, an increase of $16 million or 24% was due to a higher of coal selling price.

2.7 Share of profit from joint ventures and associates reported at $65 million consisted of profit sharing from BLCP, Hongsa power plant and Phufai mining in Lao, coal business in China of $9 million, $23 million and $34 million, respectively, and loss sharing from others $1 million.

Share of profit from joint ventures and associates increased by $5 million or 8% compared to the same quarter of last year, was net impact of an increase of share of profit from coal business in China of $3 million, Hongsa power plant and Phufai mining in Laos of $5 million and a decrease of profit sharing of BLCP of $3 million based on a decrease of revenue structure according to a power purchase agreement and also impact from an appreciation of THB currency against USD currency.

2.8 Other expenses of $43 million was comprised of;

2.8.1 Interest income of $2 million.

2.8.2 Net loss from financial derivatives of $29 million which comprised of:

- Unrealized gain of $1 million from change in fair value of gas hedging contracts of $0.81 million.
- Realized loss of $30 million consisted of loss from coal swap contracts of $23 million, interest rate swap contracts of $1 million and from foreign exchange rate forward contracts of $6 million.

2.8.3 Loss on foreign exchange rate of $25 million was mainly from unrealized loss on foreign exchange rate translation on THB currency borrowings as a result of an appreciation of THB currency against USD currency from last quarter. Average exchange rate of THB/USD as of 30 September 2018 was Baht 32.41 (30 June 2018: Baht 33.17).

2.8.4 Management fees and other income of $9 million.

2.9 Corporate income tax of $36 million, increased by $5 million mainly was from

2.9.1 An increase of corporate income tax of $15 million from better operating profits compared to prior year.

2.9.2 A decrease of withholding tax of $4 million from repayment of interest expense of a subsidiary in 3Q17 that was nil balance in 3Q18.

2.9.3 A decrease of defer tax expense of $6 million was a net impact from a decrease of $8 million from lower operating profits of Australia mines and an increase of recognition of defer tax liability of gas business in USA of $2 million compared to the prior year.

2.10 Net profit for the 3$^{rd}$ quarter ended 30 September 2018 reported $76 million, an increase of $15 million compared to the same quarter of last year.

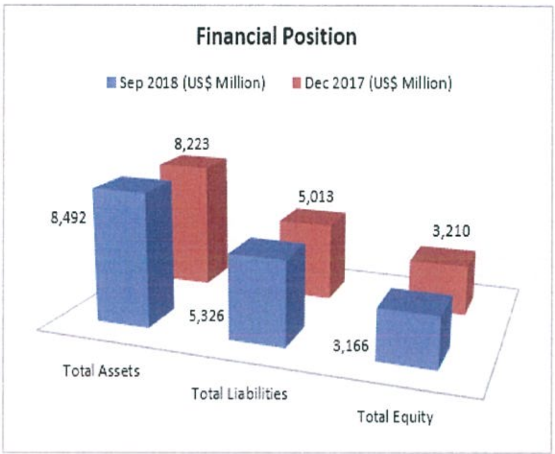
Earnings per share (EPS) reported at $0.015 per share, equivalent Baht 0.484 per share. (3Q17: $0.012 per share or equivalent to Baht 0.392 per share)

3. **Statements of Consolidated Financial Position as of 30 September 2018 in comparison with the Statements of Consolidated Financial Position as of 31 December 2017**

3.1 Total assets of $8,492 million, an increase of $269 million compared to total assets as of 31 December 2017 with main details described below:

- Cash and cash equivalents of $623 million, a decrease of $60 million or 9% (See explanation in # 4 Consolidated Statement of Cash Flow)
- Current and non-current portions of dividend receivable from related parties of $19 million and $220 million, respectively were dividend receivable from a joint venture who operates power business in Thailand. A decrease of $1 million was a net result from additional declared dividend and received dividend during the period of $126 million and $129 million, respectively and unrealized gain on foreign exchange rate translation at the end of quarter of $2 million.
- Investment in joint venture and associates of $1,329 million, increased by $159 million or 14% from addition of investments in power business in China and Japan of $77 million, profit sharing recognized net with dividend received by $100 million and unrealized loss on foreign exchange rate translation at end of period by $18 million.

- Other investments of $136 million, an increase of $24 million was from an additional investment in solar power business in Japan under a form of TK (TOKUMEI KUMIAI) agreement of $23 million and unrealized gain on foreign exchange rate translation at end of period of $1 million.
- Property plant and equipment of $1,862 million, an increase of $83 million was from equipment purchased of subsidiaries in Indonesia and Australia of $191 million, business acquisition of gas business in USA of $134 million, depreciation charges for the period of $158 million and unrealized loss on foreign exchange rate translation at end of period & others of $84 million.




- Other non-current assets of $259 million, a decrease of $48 million was from a decrease of prepaid tax of subsidiaries in Indonesia of $ 56 million that was reclassified to be current assets during the period and from a decrease of deposit for Gas business acquisition in prior year that was reclassified to be investment during the period of $15 million. Offset with an increase of restricted cash of $16 million comprised of cash reserves for mine rehabilitation of subsidiaries in Indonesia of $7 million, deposit of business acquisition agreement by $9 million of a subsidiary in Indonesia. Also an increase in accrued subsidy income of solar power plant in China of $7 million.

3.2 Total liabilities of $5,326 million, increased by $313 million compared to total liabilities as of 31 December 2017 with main details described below:

- Short-term loans from financial institutions of $653 million, an increase of $234 million was from additional loan of $982 million, repayment of $750 million (includes realized gain on foreign exchange rate of $6 million) and unrealized loss on foreign exchange rate translation at the end of period of $2 million.
- Current portions of long- term loans of $ 359 million, an increase of 206 million or 135% was the net result of reclassification from non-current portion of $346 million and

repayment of $139 million and unrealized gain on foreign exchange rate translation at the end of period of $1 million.

- Current portions of debenture of $88 million, a decrease of $80 million was from bond redemption of $178 million, reclassification from non-current portion of $88 million and realized loss on foreign exchange rate of $10 million.
- Accrued overburden and coal transportation expenses of $160 million, an increase of $57 million or 55% was mainly from mining operations of subsidiaries in Indonesia.
- Long- term loans of $1,581 million, a decrease of $110 million or 7% was net result of additional loan of $345 million, reclassification to current portion of $346 million, early repayment of $83 million and unrealized gain on foreign exchange translation at the end of period of $26 million. Mainly was from AUD currency loan as a result of depreciation of AUD currency against USD currency. Average exchange rate of AUD/USD as of 30 September 2018 was 0.7209 (31 December 2017: 0.7795).
- Debenture of $1,399 million, a decrease of $27 million or 2% was from issuance of debenture of $50 million, reclassification to current portion of $88 million and unrealized loss on foreign exchange translation at the end of period of $11 million.
- Current portion and non-current portion of derivative liabilities of $13 million and $11 million, respectively, totaling of $24 million represented unrealized loss from changes in fair value of financial derivatives at the end of period. They consisted of cross currency swap contracts of $ 10 million, interest rate swap contracts of $2 million, foreign exchange rate forward contracts of $3 million, coal swap contracts of $9 million and natural gas options contracts of $0.01 million.

3.3 Shareholders' equity of $3,166 million, a decrease of $44 million was mainly due to;

- An increase of $160 million from net profit of 9 months.
- An increase of $82 million from non-controlling interests.
- A decrease of $113 million from loss on foreign exchange rate translation of subsidiaries' financial statements and others.
- A decrease of $173 million from dividend payment.

3.4 Net debt-to-equity as of 30 September 2018 reported at 1.09 times for the consolidated financial statements (31 December 2017: 0.99 times).

4. **Statements of Consolidated Cash Flows for nine months ended 30 September 2018.**

Banpu's statement of consolidated cash flow for nine months ended 30 September 2018 recorded a decrease of net cash flow by $60 million (including the effect from loss on exchange rate translation of $12 million). The consolidated cash flows are divided into:

4.1 Net cash inflow from operation of $164 million; with major operating items as follows;

- Collections from coal sales of $2,435 million
- Payments to contractors and suppliers of $1,584 million
- Interest payments of $119 million
- Payments of corporate income tax of $112 million
- Royalty payment of $207 million
- Payments others of $249 million

4.2 Net cash outflow from investing activities of $268 million; with major items as follows;

- Payment for machines, equipment and project in progress of $197 million
- Payment for new other investment of $23 million
- Payments for investment in Gas business in USA, Clean energy business in Singapore, solar power business in Japan and a joint venture in China totaling of $174 million
- Receiving from short-term investment of $5 million
- Dividend received from joint ventures of $130 million
- Payment others of $9 million

4.3 Net cash inflow from financing of $56 million; comprised of

- Receipts from short term and long term from financial institutions and others of $1,327 million.
- Repayments of short term and long term loans from financial institutions and others of $972 million.

- Receipts from debenture of $50 million.
- Redemption of debentures of $178 million.
- Receipts from an increase of a subsidiary's share capital from warrants exercised interest $ 2 million.
- Dividend payment of $173 million.

5. Management Discussion and Analysis

The financial statement of 3Q18 indicates strong operating profit in all key business units. The coal business delivered higher sale volume which enabled the business unit to capture the robust coal market prices. The power operations demonstrated high power plant efficiency at Hongsa and BLCP while successfully started commissioning of 2 projects in China and Japan. Lastly the gas business in USA reported a strong rise in earnings due to higher gas prices in domestic market.

Group EBITDA for this quarter was concluded at USD 310 million, rising 7% QoQ and 18% YoY. EBITDA by business includes EBITDA from coal of USD 243 million, from power USD 37 million, and from gas USD 30 million.

The fluctuation in foreign exchange was unfavorable to the earnings in this period. In this quarter the Thai Baht currency has significantly appreciated against US Dollar which resulted in a translation loss of USD 25 million, which was a reverse from a substantial gain of USD 37 million due to rapid weakening of Thai Baht in the previous quarter.

Net profit was therefore reported at USD 76 million, representing 39% lower from previous quarter. Excluding foreign exchange loss the operating profit was USD 100 million, an increase of 15% from previous quarter.

Coal operation in Indonesia reported strong sale volume as planned at 6.65 million tonnes, improving 25% QoQ. The coal market during this period was largely driven by tight supply situation despite seasonal increase in export from Indonesia, resulting in sustained coal prices at high levels. The Indonesian operation realized a strong increase in Average Selling Price (ASP) by 14% QoQ to USD 89.12 per tonne. The higher production scale, constant stripping ratio, and relatively stable diesel price bode well for cost management with the Average Cost of Sale decreasing 7% QoQ to USD

46.4 per tonne. The combination of higher ASP and lower cost enlarged the Gross Profit Margin to 47% versus 38% in previous quarter.

In Australia, coal sale volume reached 3.31 million tonnes, lower 12% QoQ due to Longwall changeover at Mandalong and Springvale. The ASP registered 7% QoQ increase, touching AUD 100.63 per tonne with sale volume split between domestic and export volume at 60% and 40% respectively. The Average Cost of Sale increased to AUD 81.05 per tonne and GPM decreased to 20% from 36% in previous quarter due to lower production volume and the more challenging mining condition at Mandalong.

China coal operation continued to perform well underpinned by strong domestic prices. The combined equity income from Gaohe and Hebi mines was stable at USD 34 million.

In Power business, BLCP reported an equity income of USD 9 million due to planned maintenance program at Unit 1. Hongsa operated at a strong plant availability level and contributed USD 17.7 million including a foreign exchange loss of USD 5.4 million due to Thai Baht appreciation. China CHP realized immaterial loss in this quarter with higher revenue from sale of cooling water easing the impact from seasonally lower electricity sale.

Please be informed accordingly,

Sincerely yours,

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BANPU PUBLIC COMPANY LIMITED

Somruedee Chaimongkol

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