



Management's Discussion and Analysis

For the year ended
31 December 2018

Banpu Public Company Limited



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.

No. 0119/010

Bangkok Office

21 February 2019

Re: Management's Discussion and Analysis of the consolidated financial statements for
the year ended 31 December 2018

Attention: President

The Stock Exchange of Thailand

Banpu Public Company Limited ("the company") hereby submits a consolidated financial statements for the year ended 31 December 2018 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 2018 in comparison with the same period ended 31 December 2017 and its statement of financial position as of 31 December 2018 compared with the statement of financial position as of 31 December 2017. The analysis topics are as follows;

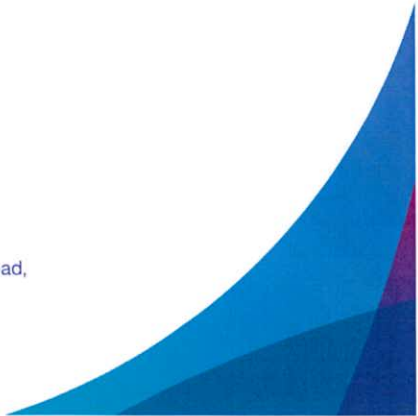
1. Industry Analysis of Coal producers' operating performance in Coal industry
2. Company performance analysis
3. Consolidated statement of financial position
4. Consolidated statement of cash flows
5. Management Discussion & Analysis

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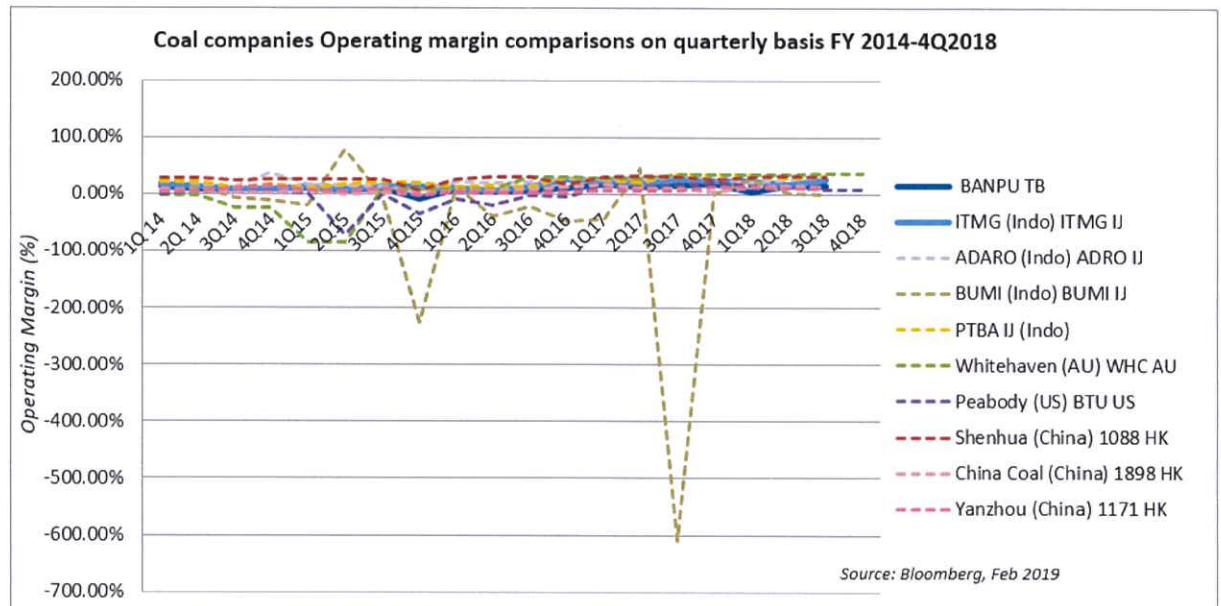
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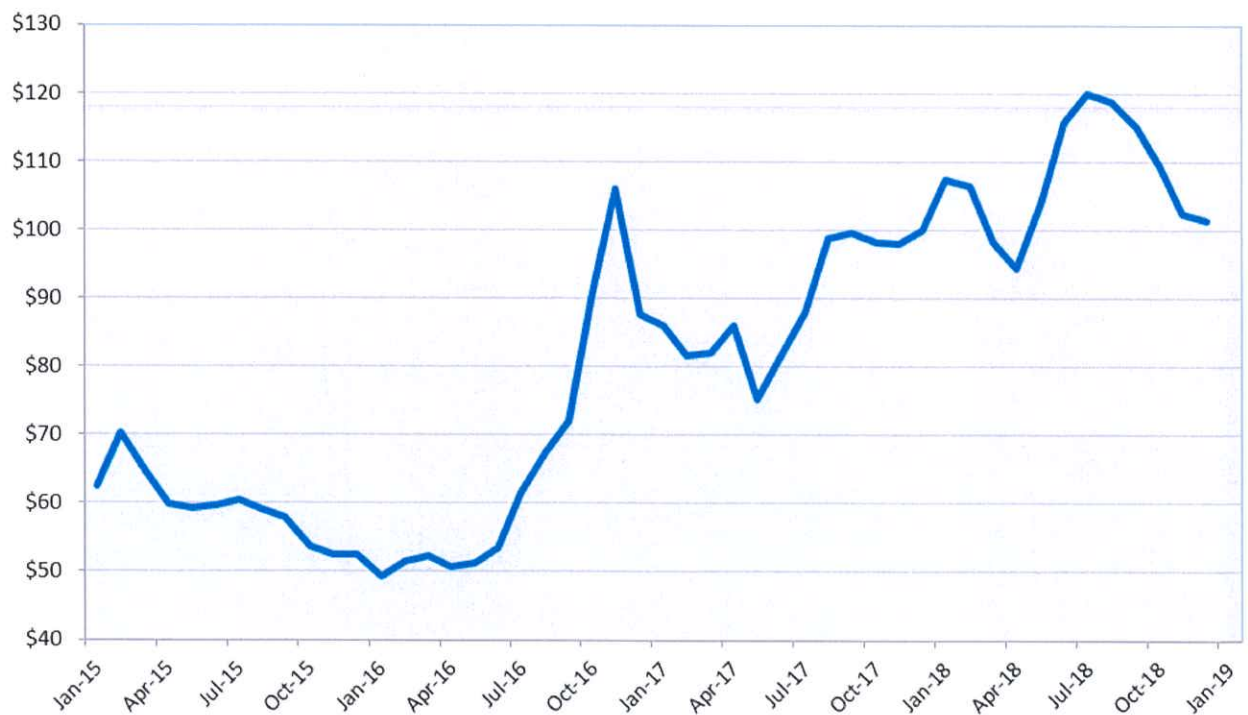


1. Industry Analysis - Coal producers' operating performance in Coal industry

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 – December 2018)



2. Company Performance Analysis

The analysis and explanation of the Group's performance for the year ended 31 December 2018 and 2017 as follows:

Consolidated statements of Income for the year ended 31 December 2018 and 2017

Consolidated financial performance		
(Unit: Million \$)	2018	2017
Sales	3,481	2,877
Cost of sales	(2,253)	(1,767)
Gross profit	1,228	1,110
Selling expenses	(182)	(160)
Administrative expenses	(237)	(218)
Indemnity payment	(86)	-
Royalty fee	(291)	(268)
Profit sharing from joint ventures and associates	264	205
Other income (expense)	(17)	(52)
Financial costs	(175)	(140)
Profit before tax	504	477
Income tax	(189)	(134)
Net profit for the year	315	343
Owners of the parent	205	233
Non-controlling interest	110	110
Earnings per share (Unit: USD)	0.040	0.046

2.1 Sales reported at \$3,481 million (equivalent THB 112,771 million), an increase of \$604 million or 21% compared to 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 \$ 3,020 million accounted for 87% of total revenue. The revenue from coal sales comprise of :

- Sales from Indonesia coal mines of \$1,984 million.
- Sales from Australia coal mines of \$1,014 million.
- Sales from others of \$22 million.

Revenue (Unit: Million \$)	2018	2017
Coal business	3,020	2,629
Power & Steam business	196	189
Gas business	144	37
Others	121	22
Total	3,481	2,877

- Sales of power and steam of \$196 million represented 6% of total revenue from CHP plant and solar power plant in China.
- Sales of gas business of \$144 million represented 4% of total revenue, an increase of \$107 million was from an increase of production and sales volume compared to prior year.
- Others of \$121 million represented 3% of total revenue, an increase of \$99 million mainly was from oil trading business of a subsidiary in Indonesia.

Coal Business

Source of Coal	2018	2017	2018	2017	2018	2017
	Sales Vol. Mil Tonnes	Sales Vol. Mil Tonnes	Avg. Price Per Tonne	Avg. Price Per Tonne	Avg. Cost Per Tonne	Avg. Cost Per Tonne
Indonesia Mine	24.01	23.28	US\$ 82.62	US\$ 73.98	US\$ 47.98	US\$ 44.57
Australia Mine	14.02	13.36	A\$ 105.33	A\$ 86.13	A\$ 72.54	A\$ 56.84
Total	38.03	36.64				

- Coal sale volume of 2018 was 38.03 million tonnes, increased by 1.39 million tonnes or 4%, from an increase of sales volume from Indonesia mines by 0.73 million tonnes and Australia mines by 0.66 million tonnes.
- Average selling price of 2018 was \$78.77 per tonne, increased by \$7.67 per tonne or 11% (2017: \$71.10 per tonne), as a result of increasing of the global thermal coal market price compared to previous year. Indonesia mines' average selling price was \$82.62 per tonne which increased by \$8.64 per tonne or 12% from last year.

Australia mines' average selling price of 2018 was A\$105.33 per tonne, increased by A\$19.20 per tonne or 22% (2017: A\$86.13 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, net with an impact from a depreciation of AUD currency against USD currency, that impacted lessen of revenue in terms of USD currency when converted from revenue in AUD currency. Average exchange rate of AUD/USD was USD 0.7478 (2017: USD 0.7664).

	Sales volume (Mil Tonnes)		Average Selling price (A\$/Tonne)	
	2018	2017	2018	2017
Australia mines				
Domestics sales	8.54	8.16	81.72	75.01
Export sales	5.48	5.20	126.54	103.57
Total	14.02	13.36	105.33	86.13

Average domestic selling price per tonne was A\$ 81.72, increased by A\$6.71 as a result from an increase of sales proportion from high price contracts. For export sales, average selling price per tonne was A\$126.54, increased by A\$22.97 which was from a rising of market coal price.

Power Business

	Power Sales (Mil \$)		Steam & Others (Mil \$)	
	2018	2017	2018	2017
CHP (Combined Heat & Power) Plants	84.78	84.62	89.26	85.13
Solar Power Plants	22.14	19.47	-	-
Total	106.92	104.09	89.26	85.13

Power, steam and others sales of 3 CHP plants in China were \$174.04 million, increased by \$4.29 million compared to last year. An increase was an impact from an appreciation of THB currency against USD currency during this period, it impacted higher of revenue in terms of USD currency when converted from revenue in THB currency. Average exchange rate of USD/THB of 2018 was THB 32.31 (2017: THB 33.94). Whereas a decrease of power sales

volume 5.25 GWh and a decrease of sales price, average power tariff was RMB 0.37 per kWh (2017: RMB 0.38 per kWh). Net with an increase of steam sales and others, that was net result of a decrease in steam sales volume of 0.31 million tonne with an increase in average steam price by RMB 2.35 per tonne or 3%. Average steam price per tonne was RMB 89.97 (2017: RMB 87.62). The higher price was the effects from a higher price of coal ,a main fuel source of CHP plants and also earning subsidy from government according to comply with an ultra-low emission under environmental regulations.

An increase of sales from solar power plants in China was mainly from an increase of sales volume of 11.99 GWh and an increase of average power tariff by 0.09 compared to prior year. Average power tariff per kWh was RMB 0.35 (2017: RMB 0.29). This year solar power plants in china has operated in full capacity as a whole year, including a new project started during the last quarter. Offset with foreign exchange rate impact as above explanation under topic of CHP plants in China

2.2 Cost of sales \$2,253 million, increased by \$486 million or 28% which was from higher cost of sales in coal business, gas business and others of \$324 million, \$52 million and \$110 million, respectively.

Coal business' cost of sales increased by \$324 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 \$3.41. 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

Cost of sales (Unit: Million \$)	2018	2017
Coal business	1,905	1,581
Power & Steam business	155	144
Gas	76	24
Others	117	18
Total	2,253	1,767

market price, these affected an increase of average cost per tonne by \$1.98. In addition, cost of production per ton also increased by \$2.14 as a result from a rising of global market of oil price during the period. Average diesel price per liter was \$0.65 (2017: \$0.53).

Australia mines' average cost per tonne increased 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\$11.09 and also an increase of own production cost by A\$9.06 per ton due to less production volume compared to prior year because of difficulty geology mining conditions.

2.3 Gross profit reported \$1,228 million, an increase of \$118 million or 11%. Gross profit margin was 35% derived from 37% of coal business and 21% of power business (2017: Gross profit was 39%, derived from 40% of coal business and 24% 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 \$182 million, an increase of \$22 million or 14% was from Indonesia mine of \$36 million that represented expenses relating to Domestic Market Obligation which has been effective since the beginning of 2018 by \$23 million and an increase of relating selling expenses according to an increase of export coal sales of Indonesia mines of \$13 million. Whereas, a decrease of selling expense from Australia mines of \$15 million due to lower proportion of export own coal sales compared to 2017.

2.5 Administrative expenses reported at \$237 million, an increase of \$19 million or 9% was from cost of employee of \$8 million to support business expansion and from professional fees of \$11 million for new investment opportunities and innovation of energy technologies.

2.6 Indemnity payment of \$86 million was a litigation claim compensation that the 3 Defendants has to equally pay the Plaintiffs the sum of THB 1,500 million plus interest at the rate of 7.50% per annum, totaling of THB 2,702 million according to the Supreme Court judgement on 6 March 2018. The Group has fully paid those claims to the Plaintiffs on 9 March 2018.

2.7 Royalty fees reported at \$291 million, an increase of \$23 million or 9% was a result of a higher of coal selling price.

2.8 Share of profit from joint ventures and associates reported at \$264 million consisted of profit sharing from BLCP, Hongsa power plant and Phufai mining in Lao, coal business in China of \$42 million, \$106 million and \$118 million, respectively, and loss sharing from others of \$2 million.

Share of profit from joint ventures and associates increased by \$59 million or 29% compared to the prior year, was net impact of an increase of share of profit from coal business in China of \$23 million, Hongsa power plant and Phufai mining in Laos of \$40 million, whereas a decrease of profit

sharing from BLCP of \$1 million based on a decrease of revenue structure according to a power purchase agreement , together with an impact from an appreciation of THB currency against USD currency and from loss sharing from others of \$3 million.

2.9 Other expenses of \$17 million was comprised of;

2.9.1 Interest income of \$8 million.

2.9.2 Net loss from financial derivatives of \$63 million comprised of:

- Unrealized loss from financial derivatives at the end of period of \$9 million was loss from coal swap contracts \$12 million and cross currency swap contracts of \$4 million, while gain on natural gas hedging contracts of \$2 million and gain on foreign exchange rate forward contracts of \$5 million.
- Realized loss from financial derivatives of \$54 million was loss from coal swap contracts and oil hedging contract of \$40 million, interest rate swap contracts of \$3 million, foreign exchange rate forward contracts of \$12 million and natural gas hedging contracts of \$5 million, while gain on cross currency swap contracts of \$6 million.

2.9.3 Loss on foreign exchange rate of \$19 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 compared to last year. Average exchange rate of USD/THB as of 31 Dec 2018 was THB 32.45 (31 Dec 2017: THB 32.68).

2.9.4 Management fees and other income of \$57 million.

2.10 Corporate income tax of \$189 million, increased by \$55 million mainly was from

2.10.1 An increase of corporate income tax of \$8 million from better operating profits compared to prior year.

2.10.2 An increase of withholding tax of \$4 million was from withholding tax of dividend receives of \$10 million, offset with a decrease of repayment of interest expense of subsidiaries of \$6 million.

2.10.3 An increase of defer tax expense of \$43 million was from a decrease of defer tax assets of \$ 37 million arising from utilization of accumulated taxable loss during the year and a decrease of defer tax liability of \$ 6 million arising from timing difference between tax and accounting basis.

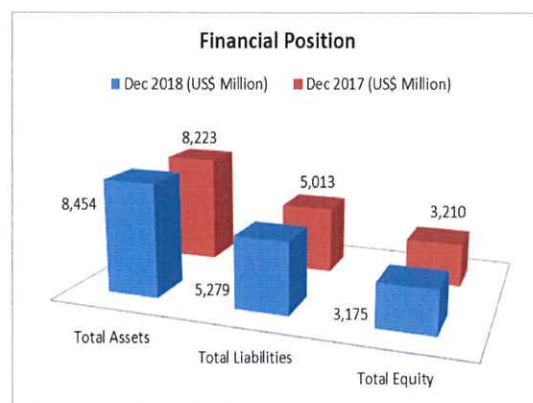
2.11 Net profit for the year ended 31 December 2018 reported \$205 million, a decrease of \$28 million compared to last year.

Earnings per share (EPS) reported at \$0.040 per share, equivalent THB 1.297 per share. (2017: \$0.046 per share or equivalent to THB 1.550 per share)

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

3.1 Total assets of \$8,454 million, an increase of \$231 million compared to total assets as of 31 December 2017 with main details described below:

- Cash and cash equivalents of \$607 million, a decrease of \$76 million or 11% (See explanation in # 4 Consolidated Statement of Cash Flow)
- Current and non-current portions of dividend receivable from related parties of \$10 million and \$210 million, respectively were dividend receivable from a joint venture who operates power business in Thailand. A decrease of \$20 million was a net result from additional declared dividend and received dividend during the period of \$126 million and \$148 million, respectively and unrealized gain on foreign exchange rate translation at the end of the period of \$2 million.
- Investment in joint venture and associates of \$1,374 million, increased by \$204 million or 18% from addition of investments in power business in China, Indonesia, Singapore and Japan of \$78 million, profit sharing recognized net with dividend received by \$143 million and unrealized loss on foreign exchange rate translation at end of period by \$17 million, mainly impacted from depreciation of RMB currency.
- Other investments of \$148 million, an increase of \$36 million was from an additional investment in solar power business in Japan under a form of TK (TOKUMEI KUMIAI) agreement.



- Property plant and equipment of \$1,859 million, an increase of \$81 million was from machine and equipment purchased of subsidiaries in Indonesia and Australia of \$264 million, business acquisition of gas business in USA and solar power plant in China of \$142 million, depreciation charges for the period of \$212 million and unrealized loss on foreign exchange rate translation at end of period & others of \$113 million.
- Other non-current assets of \$220 million, a decrease of \$86 million was from a decrease of prepaid tax of subsidiaries in Indonesia of \$115 million that was reclassified to be current assets during the period. Offset with an increase of restricted cash of \$8 million. Also an increase in accrued subsidy income of solar power plant in China of \$14 million and others of \$7 million.

3.2 Total liabilities of \$5,279 million, increased by \$266 million compared to total liabilities as of 31 December 2017 with main details described below:

- Short-term loans from financial institutions of \$512 million, an increase of \$93 million was from additional loan of \$872 million, repayment of \$778 million (includes realized gain on foreign exchange rate of \$3 million) and unrealized gain on foreign exchange rate translation at the end of period of \$1 million.
- Current portions of long- term loans of \$ 370 million, an increase of 216 million or 141% was the net result of reclassification from non-current portion of \$376 million and repayment of \$159 million and unrealized gain on foreign exchange rate translation at the end of period of \$1 million, mainly from current portions of long –term loans in RMB currency.
- 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 unrealized loss on foreign exchange rate of \$10 million.
- Accrued overburden and coal transportation expenses of \$143 million, an increase of \$40 million or 39% was mainly from mining operations of subsidiaries in Indonesia.
- Long- term loans of \$1,655 million, a decrease of \$36 million or 2% was net result of additional loan of \$498 million, reclassification to current portion of \$376 million, early repayment of \$127 million and unrealized gain on foreign exchange translation at the

end of period of \$31 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 31 Dec 2018 was 0.7039 (31 Dec 2017: 0.7796).

- Debenture of \$1,397 million, a decrease of \$28 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 \$10 million.
- Current portion and non-current portion of derivative liabilities of \$5 million and \$18 million, respectively, totaling of \$23 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 \$ 13 million, interest rate swap contracts of \$6 million, foreign exchange rate forward contracts of \$2 million, coal swap contracts of \$2 million and natural gas options contracts of \$0.4 million.

3.3 Shareholders' equity of \$3,175 million, a decrease of \$35 million was mainly due to;

- An increase of \$205 million from net profit of 2018.
- An increase of \$107 million from non-controlling interests.
- A decrease of \$140 million from loss on foreign exchange rate translation of subsidiaries' financial statements and others.
- A decrease of \$207 million from dividend payment.

3.4 Net debt-to-equity as of 31 December 2018 reported at 1.07 times for the consolidated financial statements (31 December 2017: 0.99 times).

4. Statements of Consolidated Cash Flows for year ended 31 December 2018.

Banpu's statement of consolidated cash flow for the year ended 31 December 2018 recorded a decrease of net cash flow by \$75 million (including the effect from loss on exchange rate translation of \$9 million). The consolidated cash flows are divided into:

4.1 Net cash inflow from operation of \$411 million; with major operating items as follows;

- Collections from coal sales of \$3,401 million
- Payments to contractors and suppliers of \$2,170 million
- Interest payments of \$175 million

- Payments of corporate income tax of \$125 million
- Receiving from tax reclamation \$51 million
- Royalty fee payment of \$298 million
- Other payments of \$273 million

4.2 Net cash outflow from investing activities of \$453 million; with major items as follows;

- Payment for machines, equipment and project in progress of \$273 million
- Payment for new other investment of \$33 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 \$177 million
- Payment for deferred charge of mine exploration, mine development and overburden of \$131 million
- Receiving from short-term investment of \$1 million
- Dividend received from joint ventures of \$149 million
- Other payments of \$11 million

4.3 Net cash inflow from financing of \$25 million; comprised of

- Receipts from short term and long term from financial institutions and others of \$1,370 million.
- Repayments of short term and long term loans from financial institutions and others of \$1,062 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 \$207 million.

5. Management Discussion and Analysis

The consolidated financial statement for 2018 indicates robust performance in coal, gas, and power generation business. Group EBITDA for 2018 was USD 1,178 million or 22% higher than the previous year, comprising of EBITDA from coal USD 895 million, EBITDA from gas USD 101 million and EBITDA from power USD 182 million.

The consolidated net profit was concluded at USD 205 million which is 12% lower from last year. The net profit was impacted by the strengthening of Thai Baht against US Dollar, causing a translation loss of USD 19 million. A financial derivatives loss was recorded at USD 63 million, mostly due to coal hedging loss from strong increase in coal prices during the year. The company also recorded USD 86 million as compensation to the Hongsa court case.

In 4Q18 the group EBITDA was USD 351 million, increasing 13% QoQ. Net profit was USD 45.30 million or 40% lower QoQ.

In 4Q18 Indonesia coal achieved the highest coal sale of the year at 7.61 million tonnes, higher 14% QoQ, with an average selling price (ASP) of USD 77 per tonne which declined 13% QoQ due to easing coal market prices. The cost of sale slightly increased 8% to USD 47.98 per tonne with diesel price unchanged at USD 0.67 per litre. Gross profit margin was slimmer at 39% versus 47% in previous quarter.

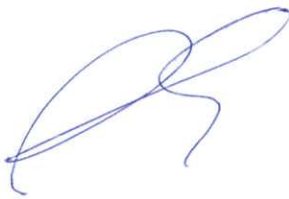
Australia coal sale volume in 4Q18 was 3.76 million tonnes, improving 13% QoQ. The ASP remained firm at AUD 105.36 per tonne while cost of sale declined 6% QoQ to AUD 75.91 per tonne, reflecting improvement in production efficiency. Gross profit margin was 28% compared to 20% in previous quarter.

China coal reported a strong equity income of USD 24 million supported by favorable coal prices as the country approaching winter season.

In power business, the Combined Heat and Power (CHP) plants in China contributed a net profit of USD 2.44 million in 4Q18 due to high seasonal demand for both power and steam products while power plants still facing high coal cost. BLCP successfully completed the Extended Major Overhaul for Unit 2 earlier than plan. It reported an equity loss of USD 1.35 million. Hongsa achieved a strong level of plant utilization allowing it to dispatch additional electricity. It reported an equity income of USD 19 million.

Please be informed accordingly,

Sincerely yours,



Somruedee Chaimongkol

Chief Executive Officer



Ms. Arisara Sakoongaravek

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