BANPU

Management's Discussion and Analysis

For the second quarter ended 30 June 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 0816 / 067

Bangkok Office

10 August 2016

Re: Management's Discussion and Analysis of the consolidated financial statements for the second quarter ended 30 June 2016

Attention: President

The Stock Exchange of Thailand

Attachment: 2 sets of consolidated financial statements for the second quarter ended 30 June 2016

Banpu Public Company Limited ("the company") hereby submits 2 sets of consolidated financial statements for the second quarter ended 30 June 2016 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 second quarter ended 30 June 2016 in comparison with the same quarter ended 30 June 2015 and its statement of financial position as of 30 June 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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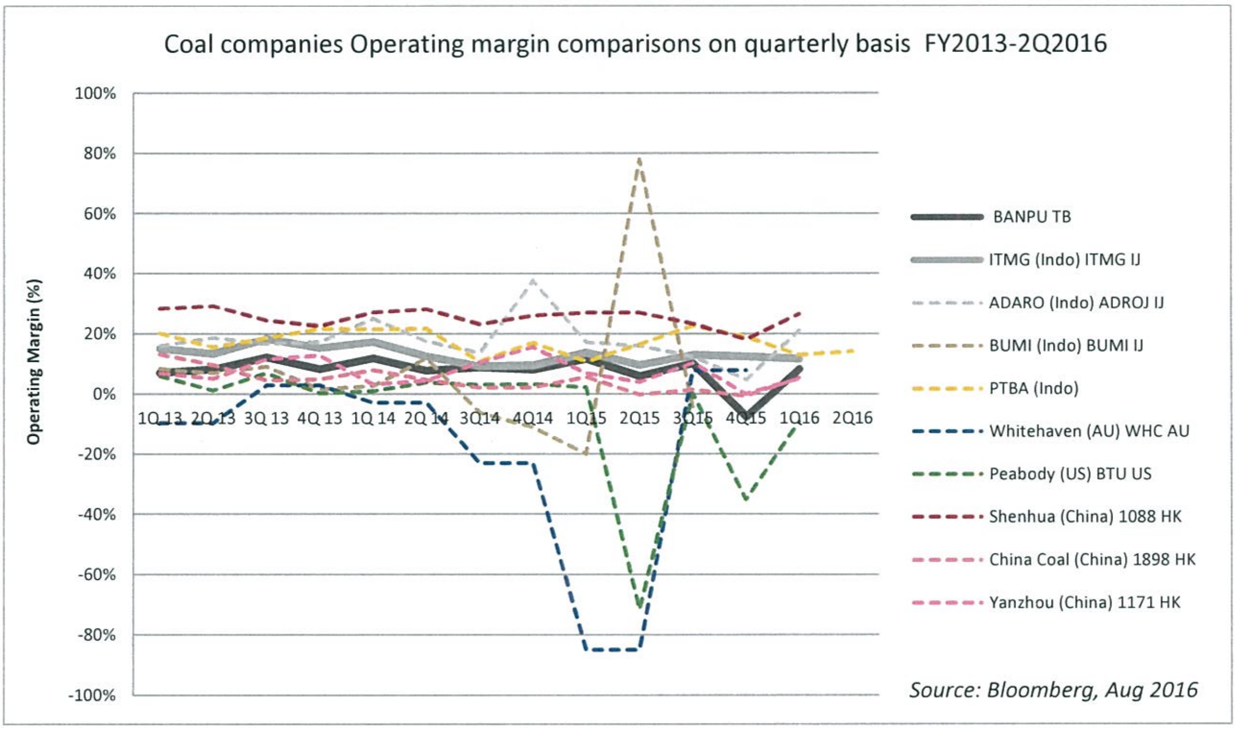
1. Industry Analysis - Coal producers 'operating performance in Coal industry

The market thermal coal price has continuously declined since 2013 which has impacted the operating performance of all companies in coal industry. 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 30 Jun 16)

2. Company Performance Analysis

The analysis and explanation of company performance for of the three-month period ended 30 June 2016 and 2015 is as follows:

Consolidated statements of Income for the second quarter ended 30 June 2016 and 2015

Consolidated financial performance (Unit: Million USD)	2Q2016	2Q2015
Sales	469	602
Cost of sales	(329)	(420)
Gross margin	140	182
Selling expenses	(43)	(55)
Administrative expenses	(32)	(34)
Royalty fee	(44)	(62)
Profit sharing from associates	26	19
Other income (expense)	2	7
Financial costs	(35)	(33)
Profit before tax	14	24
Income tax	(1)	(18)
Net profit for the period	13	6
Owners of the parent	8	(2)
Non-controlling interest	5	8
Basic Earnings per share(Unit: USD)	0.003	(0.001)
Diluted Earnings per share (Unit: USD)	0.003	(0.001)

2.1 Sales revenue reported at $469 million (equivalent Baht 16,562 million), a decrease of $133 million or 22% compared to last year, was from a decrease in coal sale volume and a continued declining of the global coal price. Details of the company's revenue are as follows:

- Revenue from coal sales of $429 million accounted for 91% of total sales revenue. The revenue from coal sales includes:
  - Sales revenue from Indonesia coal mines of $289 million;
  - Sale revenue from Australia coal mine of $140 million.

Revenue	2Q16 (Mil USD)	2Q15 (Mil USD)
Coal Business	429	561
Power/Steam Business	32	34
Others	8	7
Total	469	602

- Sales of power and steam and others of $40 million represented 9% of total sales revenue.

Coal Business

Source of Coal	*2016* Sales Vol. Mil Ton	*2015* Sales Vol. Mil Ton	*2016* Avg. Price Per Ton	*2015* Avg. Price Per Ton	*2016* Avg. Cost Per Ton	*2015* Avg. Cost Per Ton
Indonesia Mine	6.24	6.87	US$46.35	US$57.19	US$32.58	US$39.11
Australia Mine	3.03	3.09	A$61.83	A$67.47	A$44.33	A$51.32
Total	9.27	9.96				

- Coal sale volume for the second quarter of 2016 was 9.27 million tonnes, decreased by 0.69 million tonnes or 7%, due to the decreased of Indonesia mines' sale volume by 0.63 million tonnes and Australia mines' sale volume by 0.06 million tonnes.
- Average selling price for the second quarter of 2016 was $46.24 per tonne, compared to 2015 average selling price of $56.33 per tonne, decreased by 18% as a result of a declining of global coal market price. Indonesia mines' average selling price was $46.35 per tonne which decreased from the last year by $10.84 per tonne or 19%.

  Australia mines' average selling price was A$61.83 per tonne, a decrease of A$5.64 per tonne, mainly from a declining of global coal market price compared to last year.

2.2 Cost of sales $ 329 million, decreased by $ 91 million or 22% which was due to decreased coal sale volume and average cost per tonne compared to the same quarter of last year. Average cost of sales per tonne of Indonesia mines reduced by $6.53 which was mainly from a lower diesel fuel cost resulting from a continued decline in global oil prices. Average fuel cost per liter in 2Q16 was $0.42 per liter (2Q15: $0.61 per liter) and there was a reduction in the stripping ratio from 9.20 to 8.77 In addition, there was a production cost saving program that has been continuously implemented from previous year.

Average cost of sales per tonne of Australia mines reduced by A$6.99 compared to last year. The favorable impact was from a higher closing coal inventory valuation due to an improving export coal price. And also there was a production cost saving program that has been continuously implemented from previous year.

2.3 Gross profit reported at $140 million, a decreased of $42 million or 23%. 2016 Gross profit margin was calculated at 30% derived from 29% of coal business and 41% of power business (2015: Gross profit was 30%, derived from 30% of coal business and 33% of power business). A decrease in coal business gross margin was a result of a declining of global coal market price. On the other hand, the lower coal price was favorable for coal fired power business, reflected by an increase of power business's gross profit compared to last year.

2.4 Selling expenses reported at $43 million, a decrease of $12 million or 22% was a result of a decrease in coal sale volume compared to last year and cost saving program that has been continuously implemented from previous year.

2.5 Administrative expenses reported at $32 million, a decrease of $2 million or 6% was mainly from a decrease of expenses, which was a result of cost reduction program that has been continuously implemented from last year.

2.6 Royalty fees reported at $44 million, a decrease of $18 million or 30% was due to the lower of coal selling price and coal sale volume compared to last year.

2.7 Equity income from associates reported at $26 million, was the net result from profit sharing of BLCP and Hongsa Power plant of $20 million and $13 million, respectively and loss sharing from China coal business and others of $5 million and $2 million, respectively.

Net equity income recognized in 2Q16 increased by $7 million or 32% compared to last year, mainly from net results from increased profit sharing from Hongsa Power plant by $17 million while loss sharing from China coal business and others of $8 million and $2 million, respectively.

2.8 Other income of $2 million was comprised of;

2.8.1 Interest income of $2 million.

2.8.2 Loss from derivative financial instruments of $10 million which comprised of :

- Net realized loss of $9 million, which consisted of loss from Coal swap and Gasoil hedging, interest rate swap, Cross Currency Swap and forward exchange contracts were $0.72 million, $2.32 million, $0.18 million and $6.1 million, respectively.
- Net unrealized loss of $1 million, which was from a change in fair value of Gasoil hedging contracts and forward exchange contracts were $0.94 and $0.16 million, respectively. Netting against an unrealized gain on mark-to-market of interest rate swap contracts by $0.13 million.

2.8.3 Net gain on exchange rate of $3 million was net impact between realized gain on exchange rate incurred in the quarter and net unrealized loss on exchange rate at the quarter end.

2.8.4 Management fees and others income of $7 million.

2.9 Corporate income tax of $1 million, decreased by $17 million compared to last year.

2.9.1 Decrease of $2 million from a lower of operating profit

2.9.2 Decreased of $12 million from a net increase of deferred tax assets

2.9.3 Decreased of $3 million was due to there was withholding tax on dividend income and prior year corporate income tax adjustment of a subsidiary in Indonesia during this quarter in last year by $1 million and $2 million, respectively.

2.10 Net profit for the second quarter ended 30 June 2016 reported at $8 million, increased from last year by $10 million

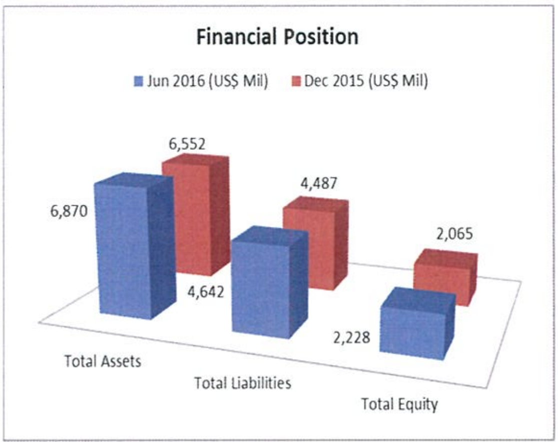
Basic Earnings per share reported at $0.003 per share, equivalent to 0.096 Baht per share (2Q/2015: ($0.001) per share or equivalent (0.021) Baht per share).

Diluted Earnings per share reported at $0.003 per share, equivalent to 0.090 Baht per share.

3. **Statements of Consolidated Financial Position as of 30 June 2016 in comparison with Statements of Consolidated Financial Position as of 31December 2015**

3.1 Total assets of $6,870 million, an increase of $318 million compared to total assets as of 31 December 2015 with details described below:

- Cash and cash equivalents of $409 million, an increased $13 million or 3% (See explanation in # 4 Consolidated Statement of Cash Flow)
- Accrued dividends income from related parties of $238 million were dividend receivable of domestic power business, increased by $17 million which was net result of received dividend and additional declared dividend in this quarter by $24 million and $37 million, respectively Also there was a gain from foreign exchange translation by $4 million.



- Investment in joint venture and associates of $866 million, increasing by $222 million or 34% from investment in Hongsa power plant of $205 million and China power plant of $8 million, profit sharing recognized net of dividend received during this quarter by $(3) million and gain from foreign exchange translation by $12 million.
- Property plant and equipment of $1,270 million, an increased $90 million from purchased equipment of subsidiaries in Indonesia and Australia of $43 million netting with disposal of $3 million & additions from business acquisition of $109 million, depreciation expenses for the period of $71 million and gain from foreign exchange translation of $12 million.

3.2 Total liabilities of $4,642 million, an increased by $155 million compared to total liabilities as of 31 December 2015 with details described below:

- Short-term loans from financial institutions of $604 million, an increase of $374 million
- Current portion of long-term loans of $303 million, a net increase of $118 million or 64% was net impact between a reclassification of long term portion to current portion of $200 million and repayment during the period of $82 million.
- Current portion of debenture decreased by $58 million or 100% was due to repayment during this quarter.
- Accrued overburden and coal transportation expenses of $ 76 million, a decrease of $41 million, mainly was from the Indonesia operations.
- Long-term loans of $1,508 million, net decreased by $179 million was from new borrowing of $18 million offset against loan repayment, reclassification to current portion, loss from foreign exchange translation and deferred for financial cost of $8 million, $200 million, $10 million and $1 million, respectively.
- Debenture of $1,207 million, an increased by $27 million was from a loss on foreign exchange translation.
- Derivative liabilities of $136 million represented unrealized loss from change in fair value of financial instruments from interest rate swap, cross currency swap, forward exchange rate, coal swap and gasoil hedging contracts by $5 million, $99 million, $30 million, $1 million and $1 million, respectively.

3.3 Shareholders' equity of $2,228 million, a net increase of $163 million was due to;

- An increase of $2 million from net profit for the six-months
- An increase of $38 million from gain on subsidiaries' foreign exchange translations.
- An increase of $182 million from an increase of share capital
- An increase of $14 million from non-controlling interests
- A decrease of $21 million from a subsidiary's treasury stocks
- A decrease of $39 million from dividend payment.
- A decrease of $13 million from change in fair value of available for sales investments, hedged financial instruments and others.

3.4 Net debt-to-equity as of 30 June 2016 reported at 1.44 times for the consolidated statement of financial position (31 December 2015: 1.35 times for the restated consolidated statement of financial position).

4. **Statements of Consolidated Cash Flows for the six-month period ended 30 June 2016**

Banpu's statement of consolidated cash flow for six-month period ended 30 June2016 recorded an increase of net cash flow by $13 million (included the effect from exchange rate translation loss of $1 million) from 31 December 2015. The consolidated cash flows are divided into:

4.1 Net cash outflow from operation of $8 million; with major operating items as follows;

- Collection from coal sale of $1,076 million
- Payment to contractors and suppliers of $618 million
- Interest payment of $63 million
- Payment of corporate income tax of $55 million
- Royalty payment of $96 million
- Others of $236 million

4.2 Net cash outflow from investing activities of $357 million; with major items as follows;

- Payment in machine, equipment and project in progress of $63 million
- Payment for investments in joint ventures & others and short-term investments of $212 million
- Payment for new acquisition company $110 million
- Payment for loan to related companies and others of $35 million
- Dividend received from subsidiaries and power business in Thailand of $24 million
- Receiving from short-term investment of $51 million
- Receiving from interest income and others of $3 million.

4.3 Net cash inflow from financing of $381 million; comprised of

- Received from increase share capital of $182 million
- Proceeds from short-term, long-term loans from banks of $887 million
- Dividend payment of $39 million
- Payment for treasury stocks of a subsidiary of $19 million
- Repayment of bank loan, long-term loan and Debenture of $650 million

5. Management Discussion and Analysis

The financial statement of 2Q16 indicates sound performance in coal operation underpinned by effective cost management at Indonesia and Australia. Income from China coal recovered due to a more favorable situation in local market. In power business, all three main power operations namely BLCP, Hongsa, and Power China delivered performance as planned. The net profit for this quarter recovered to $8 million from a net loss of $5 million in the previous quarter.

Group EBITDA was reported at $99 million (-5% YoY and -13% QoQ). Coal EBITDA was lower at $57 million (-28% YoY and -20% QoQ) due mainly to lower revenue in Indonesia and Australia. Power EBITDA was $40 million (+57% YoY and -4% QoQ) due to the full commercial startup of Hongsa and stronger contribution from China Power. This quarter also marks the first accounting consolidation of unconventional gas in USA business. It contributed EBITDA of $2 million.

The Indonesian coal mines delivered sale volume of 6.24 million tonnes. The major mining areas including Indominco, Trubaindo, and Bharinto achieved production output as planned. Compared to last year the total sale volume decreased due to reserve depletion at Kitadin Tandung Mayang that led to mine closure since early this year. The Average Selling Price (ASP) softened 4% QoQ to $46.24 per tonne. Nevertheless the production cost continued to be well-managed at $32.6 per tonne or flat QoQ despite the recovery in diesel price by 28% QoQ to $0.42 per litre. The Gross Profit Margin (GPM) was 30% compared to 34% in the previous quarter as a result of lower ASP.

Australia Coal operation in this quarter was highlighted by two Longwall changeover works at Mandalong and Springvale scheduled for this quarter. The impact to output was relatively marginal due to efficient changeover particularly at Mandalong which took only 14 days to complete the Longwall reinstallation. Total sale volume was reported at 3.03 million tonnes or 11% lower QoQ. The ASP was A$61.83 per tonne, lower 5% QoQ led by unfavorable export prices. The sound operation and efficient inventory management resulted in a lower unit cost at A$44.3 per tonne, an 11% saving QoQ. Its GPM was sustained at 30%.

For China coal business, Gaohe operation showed signs of improvement from previous quarters due to good mining conditions leading to higher sales whereas coal in local market started to recover. In this quarter, the total equity loss from China lessened to $5.4 million compared to a loss of $9.7 million in the previous quarter.

Power business delivered performance as planned due to healthy operations at BLCP with stable equity income of $20 million whereas Hongsa generated its first full-period earnings with all three units under commercial operations. Its equity income was $13 million compared to $1.4 million in the previous quarter. China power business realized strong quarter with net profit contribution of $7 million lower than previous quarter due to the normal seasonal factors.

Please be informed accordingly,

Sincerely yours,

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Somruedee Chaimongkol

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