BANPU

Management's Discussion and Analysis

For the second quarter ended 30 June 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.

No. 0118/ 060

Bangkok Office

11 August 2018

Re: Management's Discussion and Analysis of the consolidated financial statements for the second quarter ended 30 June 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 June 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 June 2018 in comparison with the same period ended 30 June 2017 and its statement of financial position as of 30 June 2018 compared with the statement of financial position as of 31 December 2016. 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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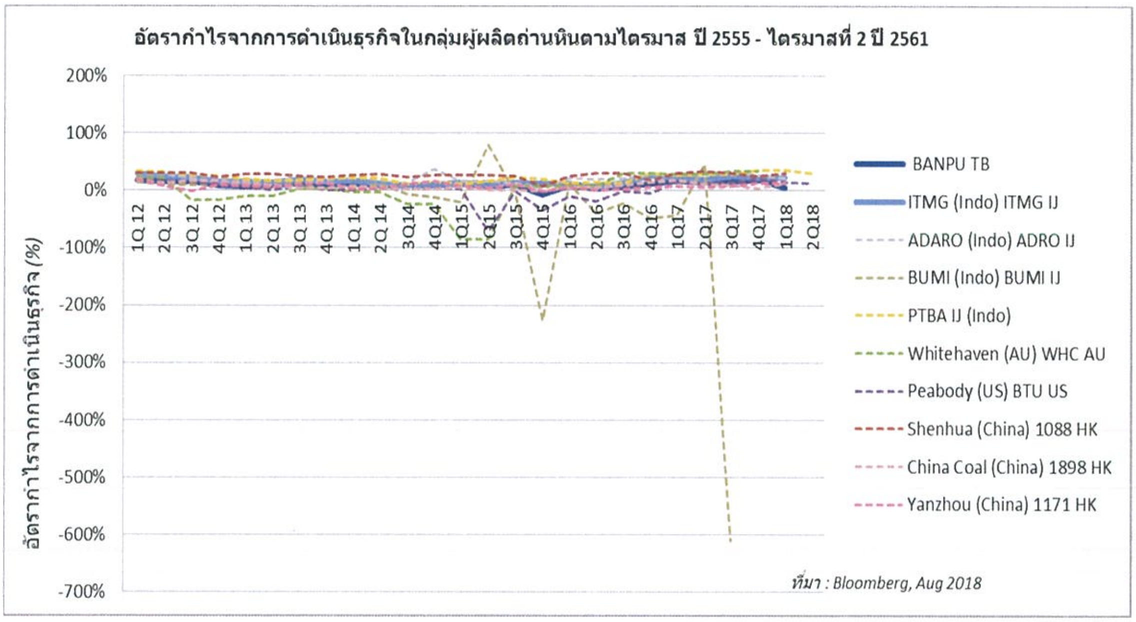
1. Industry Analysis - Coal producers' operating performance in Coal industry

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 2014 – June 2018)

2. Company Performance Analysis

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

Consolidated statements of Income for the second quarter ended 30 June 2018 and 2017

Consolidated financial performance (Unit: Million $)	2Q18	2Q17
Sales	813	633
Cost of sales	(521)	(412)
Gross margin	**292**	**221**
Selling expenses	(53)	(39)
Administrative expenses	(53)	(41)
Royalty fee	(64)	(61)
Profit sharing from joint ventures and associates	93	76
Other income (expense)	40	(7)
Financial costs	(45)	(34)
Profit before tax	**210**	**115**
Income tax	(59)	(22)
Net profit for the period	**151**	**93**
Owners of the parent	124	66
Non-controlling interest	27	27
Earnings per share (Unit: USD)	0.024	0.013

2.1 Sales reported at $813 million (equivalent Baht 25,962 million), an increase of $180 million or 28% 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 $706 million accounted for 87% of total sales revenue. The revenue from coal sales comprise of :
  - Sales from Indonesia coal mines of $431 million.
  - Sales from Australia coal mines of $270 million.
  - Sales from others of $5 million.
- Sales of power and steam and others of $72 million represented 9% of total revenue.
- Sales of gas business of $35 million represented 4 % of total revenue.

Revenue (Unit: Million $)	2Q18	2Q17
Coal business	706	582
Power & Steam business	42	37
Gas business	35	8
Others	30	6
Total	813	633

Coal Business

Source of Coal	*2Q18* Sales Vol. Mil Tonnes	*2Q17* Sales Vol. Mil Tonnes	*2Q18* Avg. Price Per Tonne	*2Q17* Avg. Price Per Tonne	*2Q18* Avg. Cost Per Tonne	*2Q17* Avg. Cost Per Tonne
Indonesia Mine	5.34	5.56	US$ 77.89	US$ 70.32	US$ 49.79	US$ 43.85
Australia Mine	3.78	3.15	A$ 94.36	A$ 80.20	A$ 60.53	A$ 55.96
Total	9.12	8.71				

- Coal sale volume of 2Q18 was 9.12 million tonnes, increased by 0.41 million tonnes or 5%, from an increase of sales volume from Australia mines by 0.63 million tonnes and a decrease of sales volume from Indonesia mines by 0.22 million tonnes.
- Average selling price of 2Q18 was $76.93 per tonne, increased by $10.27 per tonne or 15% (2Q17: $66.66 per tonne), as a result of increasing in the global thermal coal market price compared to previous year. Indonesia mines' average selling price was $77.89 per tonne which increased by $7.57 per tonne or 11% from last year.

  Australia mines' average selling price of 2Q18 was A$94.36 per tonne, increased by A$14.16 per tonne or 18% (2Q17: A$80.20 per tonne). An increase was mainly from a higher of both domestic and export selling price 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)	
	2Q18	*2Q17*	*2Q18*	*2Q17*
Domestics sales	2.48	1.89	80.96	69.33
Export sales	1.30	1.26	120.00	96.55
Total	3.78	3.15	94.36	80.20

Average domestic selling price per tonne was A$ 80.96, increased by A$11.63 as a result from proportion of high price contracts was more than legacy contracts which gradually expired. For export sales, average selling price per tonne was A$120.00, increased by A$23.45 which was from a rising of market coal price during the period.

Power Business

	Power Sales (Mil $)		Steam & Others (Mil $)	
	2Q18	2Q17	2Q18	2Q17
CHP (Combined Heat & Power) Plants	20.00	17.51	15.85	14.16
Solar Power Plants	6.62	5.69	-	-
Total	26.62	23.20	15.85	14.16

Power, steam and others sales of 3 CHP plants in China were $35.85 million that increased by $4.18 million compared to last year. An increase was a net impact between a decrease of power and steam sales volume and an increase of average power tariff and steam price. Average power tariff was RMB 0.39 per kWh (2Q17: RMB 0.37 per kWh) that increased by RMB 0.02 per KWh or 6%, and an average steam price per tonne was RMB 99.89 (2Q17: RMB 90.08), increased by RMB 9.81 per tonne or 11%. 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.

2.2 Cost of sales $521 million, increased by $109 million or 26% which was a net result of an increase of power & steam businesses' cost of sales of $6 million due to a higher of coal costs that were a main fuel of CHP power plants in China. Average coal cost was RMB 653 per tonne (2Q17: RMB 576 per tonne), an increase of 13% compared to previous year. Coal cost has continuously rise since 4Q16.

Cost of sales (Unit: Million $)	2Q18	2Q17
Coal business	444	375
Power & Steam business	36	30
Gas	19	5
Others	22	2
Total	521	412

Coal business' cost of sales increased this quarter by $69 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 $5.94. 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 $4.95. In addition, our cost of production per ton also increased by $3.68 as a result from a higher of stripping ratio that increased from 10.37 to 10.83 and a rising of global market of oil price during the period. Average diesel price per liter was $0.65 (2Q17: $0.51).

Australia mines' average cost per tonne increased by $4.57 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$9.14 offset with cost saving of our production cost by $4.57 per ton due to more production volume compared to prior year.

2.3 Gross profit reported $292 million, an increase of $71 million or 32%. Gross profit margin this quarter was at 36% derived from 37% of coal business and 15% of power business (2Q17: Gross profit was 35%, derived from 35% of coal business and 19% 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 $53 million, an increase of $14 million or 36% was from Indonesia mine of $7.41 million that represented net impact of expenses relating to Domestic Market Obligation which has been effective since the beginning of 2018 by $9 million offset with a decrease of selling expenses according to a decrease of export coal sales of Indonesia mines. Also there was an increase of selling expense from Australia mines of $6.36 million due to higher export coal sales volume and more coal shipped from west compared to prior year.

2.5 Administrative expenses reported at $53 million, an increase of $12 million or 29% was mainly from an increase of staff costs which related to expansion projects of CHP in China and solar power business in Japan by THB 3 million, professional fee and legal consulting fee of gas business in USA of $8 million and cost of management fee related to a power plant project in China that is under construction of $1 million.

2.6 Royalty fees reported at $64 million, an increase of $3 million or 5% was due to a higher of coal selling price.

2.7 Equity income from joint ventures and associates reported at $93 million consisted of profit sharing from BLCP, Hongsa power plant in Lao, coal business in China of $18 million, $42 million and $34 million, respectively offset with loss sharing from solar power business in Japan and other of $1 million.

Equity income from joint ventures and associates recognized in 2Q18 increased by $17 million or 22% compared to the same quarter of last year, was net impact of an increase of profit sharing from coal business and power plant business in China of $13 million, Hongsa power plant in Laos of $12 million and a decrease of profit sharing of BLCP of $4 million based on a decrease of revenue structure according to a power purchase agreement and Solar power business in Japan and others of $4 million.

2.8 Other expenses of $40 million was comprised of;

2.8.1 Interest income of $2 million.

2.8.2 Net loss from financial derivatives of $3 million which comprised of:

- Unrealized loss of $9 million consisted of loss from change in fair value of coal swap contracts of $12.08 million, gas hedging contracts of $2.08 million offset with gain from change in fair value of foreign exchange rate forward contracts and interest rate swap contracts of $4.86 million and $0.26 million, respectively.

- Realized gain of $6 million was from cross currency swap contracts of $5.44 million, oil and gas hedging contracts of $0.03 million and $1.73 million. And realized loss from interest rate swap contracts of $0.59 million and from foreign exchange rate forward contracts of $0.55 million.

2.8.3 Gain on foreign exchange rate of $37 million was mainly from unrealized gain on foreign exchange rate translation on THB currency borrowings as a result of a depreciation of THB currency against USD currency from last quarter. Average exchange rate of THB/USD as of 30 June 2018 was Baht 33.17 (31 Mar 2018: Baht 31.23).

2.8.4 Management fees and other income of $4 million.

2.9 Corporate income tax of $59 million, increased by $37 million mainly was a recognition of corporate income tax from a decrease of deferred income tax assets as a result from better operating profit.

2.10 Net profit of 2Q18 reported $124 million, an increase of $58 million compared to the same quarter of last year.

Earnings per share (EPS) reported at $0.024 per share, equivalent Baht 0.769 per share. (2Q17: $0.013 per share or equivalent Baht 0.444 per share)

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

3.1 Total assets of $8,321 million, an increase of $98 million compared to total assets as of 31 December 2017 with main details described below:

- Cash and cash equivalents of $505 million, a decrease of $178 million or 26% (See explanation in # 4 Consolidated Statement of Cash Flow)
- Current and non-current portions of dividend receivable from related parties of $20 million and $215 million, respectively were dividend receivable from a joint venture who operates power business in Thailand. A decrease of $6 million was a net result from additional declared dividend and received dividend during the period of $72

million and $71 million, respectively and unrealized loss on foreign exchange rate translation at the end of quarter of $7 million.

- Investment in joint venture and associates of $1,309 million, increased by $139 million or 12% from addition of investments in solar business in Japan of $76 million, profit sharing recognized net with dividend received by $87 million and unrealized loss on foreign exchange rate translation at end of period by $24 million.

- Other investments of $133 million, an increase of $21 million was from an additional investment in solar power business in Japan under a form of TK (TOKUMEI KUMIAI) agreement of $22 million and unrealized loss on foreign exchange rate translation at the end of period of $1 million.
- Property plant and equipment of $1,866 million, an increase of $88 million was from equipment purchased of subsidiaries in Indonesia and Australia of $113 million, business acquisition of gas business in USA of $134 million, depreciation charges for the period of $105 million and unrealized loss on foreign exchange rate translation at the end of period & others of $54 million.
- Other non-current assets of $253 million comprised of prepaid tax of subsidiaries in Indonesia of $27 million, reclassification of refundable VAT that expected to be utilized over 1 year and accrued subsidy income of solar power plants in China of $37 million and $25 million respectively, advance for project development in Indonesia of $55 million, land use right of $12 million, and others of $97 million.

3.2 Total liabilities of $5,184 million, increased by $172 million compared to total liabilities as of 31 December 2017 with main details described below:

- Short-term loans from financial institutions of $792 million, an increase of $373 million was from additional loan of $618 million, repayment of $232 million and unrealized gain on foreign exchange rate translation at the end of period of $13 million.

- Current portions of long- term loans of $ 392 million, an increase of 239 million or 156 % was the net result of reclassification from non-current portion of $338 million and repayment of $99 million.
- Current portions of debenture of $86 million, a decrease of $82 million was from bond redemption of $178 million, reclassification from non-current portion of $86 million and loss on foreign exchange rate of $10 million.
- Accrued overburden and coal transportation expenses of $161 million, an increase of $57 million or 56% was mainly from mining operations of subsidiaries in Indonesia.
- Long- term loans of $1,424 million, a decrease of $266 million or 16% was net result of additional loan of $141 million, reclassification to current portion of $338, early repayment of $46 million and unrealized gain on foreign exchange translation at the end of period of $23 million.
- Debenture of $1,321 million, a decrease of $104 million or 7% was from reclassification to current portion of $86 million and unrealized gain on foreign exchange translation at the end of period of $18 million.
- Current portion and non-current portion of derivative liabilities of $31 million and $18 million totaling of $49 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 $ 17 million, interest rate swap contracts of $1 million, foreign exchange rate forward contracts of $1 million, coal swap contracts of $29 million and gas hedging contracts of $1 million.

3.3 Shareholders' equity of $3,137 million, a decrease of $74 million was mainly due to;

- An increase of $84 million from net profit of 6 months.
- A decrease of $4 million from change in fair value of available for sales investments, hedged financial instruments and others.
- An increase of $40 million from non-controlling interests.
- A decrease of $82 million from loss on foreign exchange rate translation of subsidiaries' financial statements.
- A decrease of $112 million from dividend payment.

3.4 Net debt-to-equity as of 30 June 2018 reported at 1.12 times for the consolidated financial statements (31 December 2017: 0.92 times).

4. **Statements of Consolidated Cash Flows for six months ended 30 June 2018.**

Banpu's statement of consolidated cash flow for six months ended 30 June 2018 recorded a decrease of net cash flow by $178 million (including the effect from loss on exchange rate translation of $8 million). The consolidated cash flows are divided into:

4.1 Net cash outflow from operation of $36 million; with major operating items as follows;

- Collections from coal sales of $1,469 million
- Payments to contractors and suppliers of $1,026 million
- Interest payments of $83 million
- Payments of corporate income tax of $81 million
- Royalty payment of $78 million
- Payments others of $237 million

4.2 Net cash outflow from investing activities of $223 million; with major items as follows;

- Payment for machines, equipment and project in progress of $117 million
- Payment for new other investment of $13 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 $179 million
- Receiving from short-term investment of $5 million
- Dividend received from joint ventures of $77 million
- Receiving from interest income and others of $4 million

4.3 Net cash inflow from financing of $89 million; comprised of

- Receipts from short term and long term from financial institutions of $758 million.
- Repayments of short term and long term loans from financial institutions of $381 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 $112 million.

5. Management Discussion and Analysis

The financial result of 2Q18 reflects strong earnings contribution from coal business due to higher coal sale volume and resilient market prices. Power business reports high electricity generations from both BLCP and Hongsa in response to surging power consumption during summer period. Group EBITDA for this quarter was concluded at USD 290 million, rising 27% QoQ and 35% YoY. EBITDA by business includes EBITDA from coal of USD 196 million, from power USD 67 million, and from gas USD 27 million.

Net profit is reported at USD 124 million including a foreign exchange gain of USD 37 million due to the rapid depreciation of Thai Baht against US Dollar during this period. The net profit marks a turnaround from a net loss of 40 million in the previous quarter and a substantial increase from net profit of USD 66 million in the previous year.

Coal operation in Indonesia reported sale volume as planned at 5.34 million tonnes, improving 21% QoQ. The coal market during this period was still largely driven by tight supply from Indonesia due to the rainy season, resulting in sustained coal prices at high levels. The Indonesian operation realized a strong Average Selling Price (ASP) of USD 77.89 per tonne in this quarter. However this is 1% lower than previous quarter due to lower proportions of high quality coal shipment for export and lower selling prices to domestic market due to the price controlled regulation imposed by government. The Average Cost of Sale slightly adjusted up by 2% QoQ to USD 49.8 per tonne mainly resulted from higher diesel price by 7% to USD 0.65 per litre. Gross Profit Margin sustained at 38% versus 42% in previous quarter.

In Australia, coal sale volume recovered 31% QoQ to 3.78 million tonnes led by smooth operation at Mandalong following the longwall changeover in previous quarter. Springvale and Myuna also reported strong productivity and substantial increases in sale volume. The ASP reached a level similar to previous quarter at AUD 94.4 per tonne with split between domestic and export volume at 66% and 34% respectively. The Average Cost of Sale reflected high productivity of longwall equipment at AUD 60.5 per tonne which was lower 20% QoQ. The GPM improved significantly to 36% from 21% in previous quarter.

China coal operation continued to perform well underpinned by strong domestic prices. The combined equity income from Gaohe and Hebi mines was USD 34 million increasing 23% QoQ.

In Power business, BLCP reported an equity income at a good level of USD 17.7 million including a foreign exchange gain of USD 7.4 million due to Thai Baht depreciation. Hongsa operated at a strong plant availability level and contributed USD 42.7 million including a foreign exchange gain of USD 15.0 million due to Thai Baht depreciation.

Please be informed accordingly,

Sincerely yours,

BANPU
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BANPU PUBLIC COMPANY LIMITED

Somruedee Chaimongkol

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