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## Management's Discussion and Analysis for Business Operations

For the three-month period ended March 31, 2011

### ***Business Overview for First Quarter of 2011***

#### Oil Price Situation

Crude oil prices during the first quarter moved up. The main factors that supported the increase in oil prices at the beginning of this quarter were the cold weather in the US which is the largest consumer in the world and the shutdown of Trans Alaska Pipeline System due to pipeline leakage problem. Also, the political unrest situation in Egypt would tighten supply in Europe and other regions since Egypt has the control over Suez Canal, the main shipping route for crude oil from the Middle East to Europe.

The uncertainty of U.S. economic recovery and the high level of U.S. crude inventories had pressured down oil prices during the first half of February before rising up until the end of the first quarter by the turmoil that spreaded through the countries in Middle East and North Africa regions such as Libya, Yemen, and Bahrain which are the major oil producers. Particularly the situation in Libya, caused the country's supply disruption around 80% - skimmed down supply from 1.6 million barrel per day to 250,000-300,000 barrel per day, resulted in the rise in oil price of USD 30 per barrel.

However, oil prices were pressure down for sometime due to the concerns over the European debt crisis after Portugal was forced to seek a financial bailout from the European Union as its fiscal outlook deteriorated. And the massive quake that hit Japan in March 11 caused worry of Japanese oil demand reduction. In addition, the higher inflations in emerging countries such as China and India led to the tighten governments' monetary policy such as increases in interest rate and bank reserved ratio in order to slow down their economic growths. All the above mentioned facts were main factors affecting the movement of oil prices through this quarter.



The table of oil prices comparison

USD/BBL

Price	Q1 2011			2010		Changing	
	Max	Min	Avg. (A)	Avg. Q1	Avg. Q4	(A) - (B)	(A)-(C)
DB	111.63	89.87	100.90	75.78	84.39	+25.12	+16.51
UNL95/DB	15.23	9.99	12.59	12.52	10.75	0.07	+1.84
GO/DB	23.94	14.11	18.40	8.96	13.04	+9.44	+5.36
FO/DB	-4.08	-12.95	-8.69	-3.04	-8.23	-5.65	-0.46

### Production and Distribution

In the first quarter of 2011, the Company operated at an average capacity of 62.7 KBD which decreased from 86.3 KBD in the first quarter of 2010. The decrease was caused by the shifting up of the shutdown schedule for refinery maintenance which was originally planned in April to a rescheduled period of February 3 – March 6, 2011 (32 days), in accordance with the repair of Hydro Cracking Unit resulted from the January 14 incident.

The Company's total product distribution in the first quarter of 2011 (excluding crude oil and lubricant) was at an average of 96.3 thousand barrels per day, compared to the previous year's figure of 101.9 thousand barrels per day. Sales through marketing business were 67.2 KBD. The Company's sales volume through service stations and industrial market increased by 0.8%. Export increased by 6.8%. However the sales volume through Jobber, PTT and others decreased due to the shifting up of the shutdown schedule for refinery maintenance. According to the information from the Department of Energy Business, the Company's market share through service stations in the first 2-month of 2011 was at 13.8%, ranked the third place.

## **1. Explanation and Analysis of the Operating Results**

### 1.1 Net Profit / (Loss) Analysis

- 1) For the First Quarter of 2011, the Consolidated Financial Statements recorded a net profit of Baht 1,445 million, which was the Company's net profit of Baht 1,437 million, the subsidiaries' (Bangchak Green Net Company Limited-BGN and Bangchak Bio Fuel Company Limited-BBF) net profit of 17 million and 71 million Baht respectively but the consolidated figures were adjusted by connected transactions of Baht 80 million. When taking out the profit attributed to Non-Controlling interests of Baht 21 million, the



remaining net profit to equity holders of the Company was Baht 1,424 million (EPS 1.14 Baht).

- 2) The Company's base performance EBITDA of the First Quarter of 2011 was Baht 1,516 million. When combine with Baht 584 million loss from crude and product oil price hedging contract and Baht 1,303 million gain from inventory effect, total accounting EBITDA was Baht 2,234 million. Total Gross Integrated Margin-GIM (Gross Refining Margin-GRM and Marketing Margin-MKM) was USD 16.31 per barrel.

The breakdown EBITDA by business units comparing First Quarter of 2011 to First Quarter of 2010 was summarized as follows:

Table: Details of breakdown EBITDA

(Unit: Million Baht)

	Q1 2011 (A)	Q1 2010 (B)	Changing +/- (A) - (B)	%
■ Base Performance EBITDA	1,516	1,347	+169	+12.54
- Refinery business	1,172	964	+208	+21.57
- Marketing business	344	383	-39	-10.18
■ Gain (loss) from oil hedging	(584)	25	-609	N/A
■ Gain (loss) from inventory	1,303	148	+1,155	+780.41
■ Total Accounting EBITDA	2,234	1,521	+713	+46.88
- Refinery business	1,890	<sup>1/</sup> 1,138	+752	+66.08
- Marketing business	344	383	-39	-10.18

Remark 1/ EBITDA of the first quarter of 2010 was adjusted by the adjustment of employee benefit amounted Baht 11.6 million, resulted from the new accounting standard which has been applied since 1 January 2011.

### Refinery Business

For the First Quarter of 2011, the Refinery business's base performance EBITDA was Baht 1,172 million, an increase of Baht 208 million or 21.57% from EBITDA of the same period of last year. The Total Accounting EBITDA was Baht 1,890 million, an increase of Baht 752 million or 66.08% from that of last year. The Refinery Business has a Total GRM of USD 13.77 per barrel, compared to USD 6.22 per barrel in First Quarter of 2010 because of gain from inventory effect USD 5.12 per barrel. In this quarter, an average capacity was 62.7 KBD which decreased from 86.3 KBD in the first quarter of 2010. The decrease was caused by the shifting up of the shutdown schedule for refinery maintenance.



GRM analysis was summarized as follows:

Unit: USD/BBL

GRM from	Q1 2011	Q1 2010	Changing +/-
Base GRM	9.62	5.54	+4.08
GRM Hedging	-0.97	0.10	-1.07
Inventory Gain/(Loss) (Include Inventory Hedging)	5.12	0.58	+4.54
Total	13.77	6.22	+7.55

**Base GRM** The Base GRM increased by USD 4.08 per barrel from USD 5.54 per barrel from the same period of last year to USD 9.62 per barrel in 2011. The increase was caused by the growth of the finished products demand, particularly, the diesel, due to the recovery of the World's economy. In addition, the calamity in Japan had caused the operation halt of many refineries which led to the partial supply shortage of the finished products in the market. As a result, the spreads of all finished products to crude except the fuel oil had improved.

The spreads of the oil finished products and the benchmark crude are as follows:

Unit: USD/BBL

	Q1 2011	Q1 2010	Changing +/-
UNL95/DB	12.59	12.52	+0.07
IK/DB	20.33	9.35	+10.98
GO/DB	18.40	8.96	+9.44
FO/DB	-8.69	-3.04	-5.65

**GRM Hedging** GRM Hedging Loss of USD 0.97 per barrel. In the first quarter of 2011 spreads of finished products and crude oil were higher than the company's hedged levels because of the turmoil in Middle East and North African countries and the operation halt of many refineries in Japan.

**Inventory Effect** The Company had an inventory gain (include Inventory hedging) of USD 5.12 per barrel in the first quarter of 2011 due to an increase in oil price caused by weakening of US Dollar and turmoil in Middle East and North African countries.



## Marketing Business

For the First Quarter of 2011, EBITDA from the Marketing Business was Baht 344 million, a decrease of Baht 39 million or 10.18% from EBITDA of the same period of last year. The Company's marketing margin (excluding lubricant) was at Baht 0.49 per litre (equivalent to USD 2.54 per barrel) which was lower from last year's marketing margin of Baht 0.51 per litre (equivalent to USD 2.46 per barrel). The sales volume through the Marketing Business in this quarter slightly decreased from 69.0 thousand barrels per day to 67.2 thousand barrels per day. The Company's sales volume through service stations and industrial market increased by 0.8%. Export increased by 6.8%. However the sales volume through Jobber, PTT and others had decreased by the effect of shifting up of the shutdown schedule for refinery maintenance.

### 1.2 Income Analysis

- 1) Revenues from sale of goods and rendering of services of the Company and its subsidiaries for the First Quarter 2011 were Baht 35,759 million, comprised of the Company's revenues of Baht 35,382 million and its subsidiaries' (Bangchak Green Net Company Limited-BGN and Bangchak Bio Fuel Company Limited-BBF) of Baht 5,445 million and Baht 683 million respectively, adjusted by connected transaction of Baht 5,751 million which mostly associates with the sale transactions from the Company to BGN. The major changes in the Company's revenues comparing to those of last year were as follows:
  - The revenue from sales (exclude rental rights and transportation revenues) increased by Baht 2,150 million, or increased by 6.49% due to the 13.02% rise in average oil price in the first quarter of 2011. The Company's sales volume decreased by 5.8% as the effect of the shifting up of the shutdown schedule for refinery maintenance, though the Company's sales volume through service stations and industrial market increased by 0.8% and export increased by 6.8%.
  - The increase of other revenues by Baht 105 million, or by 60.0%, mainly came from the dividend payment of Baht 84 million from Bangchak Biofuel Co., Ltd. (The Company's shareholding is 70%);
  - Reversal of loss from impairment of intangible assets of Baht 241 million resulting from the Company's utilization of the existing land in Bang Pa-In for the construction of the solar power plant accounting for Baht 242 million, and the impairment of investment in MFC Energy Fund of Baht 1 million.



### 1.3 Expense Analysis

1) In First Quarter of 2011 Cost of sale of goods and rendering of services of Consolidated Income Statement was Baht 32,420 million, comprising of the Company's costs of Baht 32,332 million and of its subsidiaries' (Bangchak Green Net Company Limited-BGN and Bangchak Bio Fuel Company Limited-BBF) of Baht 5,259 million and Baht 558 million respectively, adjusted by connected transaction of Baht 5,729 million, which mostly was cost of sales from the Company to BGN and the B100 sales by BBF to the Company . Major components in changes of the Company's expenses comparing to last year were as follows:

- The Cost of sale of goods and rendering of services increased by Baht 530 million or by 1.7% because of an increase in costs of crude oil, which was in the same direction of the increase in Revenue from Sales.
- The increase of the consolidated expenses by Baht 148 million was mainly from the Catalyst write-off Baht 113 million and the Baht 18 million increase in transportation expense mainly from the oil products transportation by trucks;
- Loss from crude and product oil price hedging contract of Baht 584 million as analyzed under GRM Analysis section;

### 1.4 Profitability Analysis

	Consolidated		Company	
	Q1 2011	Q1 2010	Q1 2011	Q1 2010
■ Sales and Services, Million Baht	35,759	33,980	35,382	33,224
■ Net Profit (Loss), Million Baht	1,424	773	1,437	743
■ Net Profit Margin, %	3.98	2.27	4.06	2.24
■ Earning Per Share, Baht/Share	1.14	0.66	1.15	0.64
■ Return on Equity-ROE, %	5.97	2.98	6.07	2.87
■ ROE (excluding inventory effect), %	3.48	3.10	3.45	2.99

Remark : The figures shown in the table for 2011 and 2010 were adjusted to the new accounting standard which has been applied since 1 January 2011. For the First Quarter 2010, the Consolidated Financial Statements were adjusted by decreased Earning Before Tax of Baht 12 million and Corporate Income Tax decreased by Baht 3 million.

Percentages of Net Profit Margin for the first quarter of 2011 as shown in the Consolidated Financial Statement and the Separate Financial Statements were 3.98% and 4.06% respectively, increased from Quarter 1 2010's Margins of 2.27% and 2.24%. The main reasons were an increase in Base GRM and gain from inventory. Therefore, the Return on Equity for the Consolidated Financial Statement



then increased from 2.98% in first quarter of 2010 to 5.97% in the first quarter of 2011.

## 2. Explanation and Analysis of the Financial Position as of March 31, 2011 compared with December 31, 2010

	Consolidated		Company	
	Mar 31, 2011	Dec 31, 2010	Mar 31, 2011	Dec 31, 2010
▪ Total Assets, Million Baht	60,123	58,412	59,055	57,139
▪ Total Liabilities, Million Baht	34,893	35,632	34,152	34,713
▪ Total Equity, Million Baht	25,230	22,780	24,903	22,426
▪ Current Ratio , Times	1.73	1.82	1.73	1.83
▪ Debt to Equity, Times	0.72	0.86	0.71	0.85
▪ Book Value, Baht/Share	20.07	19.22	19.93	19.06

Remark : The figures shown in the table for 2011 and 2010 were adjusted to the new accounting standard which has been applied since 1 January 2011. At the end of 2010, the Consolidated Total Assets decreased by Baht 4,108 million from revalue asset, the increased of Employee Benefit Liabilities by Baht 164 million, and total Equity decreased by Baht 4,272 million. For the Separate Financial Statements, the Company's Total Assets decreased by Baht 4,108 million from revalue asset, the increased of Employee Benefit Liabilities by Baht 157 million, and the Company's Total Equity decreased by Baht 4,265 million.

### 2.1 Assets

- 1) At the end of March 2011, Total Assets were Baht 60,123 million, which comprised of the Company's total assets of Baht 59,055 million, its subsidiaries' (Bangchak Green Net Company Limited-BGN, Bangchak Bio Fuel Company Limited-BBF and Bangchak Solar Energy-BSE) total assets of Baht 870 million, Baht 1,260 million and Baht 150 million respectively, adjusted by connected transactions of Baht 1,212 million which was mainly Trade Account Receivable-BGN and BBF of Baht 743 million.
- 2) The Company's Total Assets at the end of March 2011 increased by Baht 1,916 million, or increased by 3.35% compared to the end of 2010. The major changes of assets were as follows:
  - Cash and cash equivalents decreased by Baht 7,329 million from long-term loan repayment resulting by the adjusting in long-term loan conditions. Detail is mentioned under Cash Flow Analysis section;
  - The increase of the Net Accounts Receivable by Baht 1,813 million mainly from Export customers when compared to those of the fourth quarter of 2010;



- The increase of the inventories by Baht 2,971 million to Baht 18,029 million mainly came from an increase of the oil price and the increase of the crude and products inventory by 26 million litres or around 0.16 million barrel from the end of 2010;
- Oil fuel fund subsidies receivable increased by Baht 1,349, mainly came from the subsidies of the diesel, the B5 diesel, and the EURO IV diesel;
- Other current assets increased by Baht 2,145 million, most of which came from Deposit for oil hedging contracts by Baht 2,235 million; the increase of Value added tax receivable of Baht 184 million, and decrease of Receivable from insurance compensation by Baht 416 million,
- The increase of the non-current assets by Baht 906 million mainly came from the increase from investments in subsidiaries of Baht 150 million (from the capital paid up of Bangchak Solar Energy Co., Ltd), an increase in annual investment by Baht 1,000 million, an increase from Reversal of loss from impairment of Bang Pa-in land of Baht 242 million, and a decrease from the Catalyst write-off of Baht 113 million

## 2.2 Liabilities

- 1) At the end of March 2011, Total Liabilities Baht 34,893 million, which consisted of the Company's Total Liabilities of Baht 34,152 million, of its subsidiaries' (Bangchak Green Net Company Limited-BGN and Bangchak Bio Fuel Company Limited-BBF) Total Liabilities of Baht 833 million and Baht 763 million respectively. Connected Transactions of Baht 743 million was adjusted.
- 2) The Company's Total Liabilities at the end of March 2011 decreased by Baht 561 million. The increases of liabilities were from the short-term loans, the accounts payable and tax payable. However there were decreases in Current portion of long-term loans from financial institutions resulting by the adjusting in long-term loan conditions, which resulted in a lower amount of loan repayment. The major changes of liabilities were as follows:
  - Total borrowings as of the end of March 2011 decreased by Baht 1,391 million from the end of 2010 due to the repayment of the long-term loan of Baht 3,351 million while the increase by Baht 3,000 million of the short-term loan was for the working capital and to serve the rising oil price in the first quarter. And there was a decrease in BCP141A DEBENTURE of Baht 1,040 million from the right exercising of the convertible debenture of 104,000 units;



- Accounts payable increased by Baht 969 million due to the dramatic rising oil price in the World's market whereas the Company's crude and oil products purchased volume in the first quarter of 2011 decreased from the fourth quarter of 2010.
- IncomeTax payable increased by Baht 444 million due to the corporate tax of 2011.

### 2.3 Equity

- 1) At the end of March 2011, the Consolidated Total Equity was Baht 25,230 million, which comprised of Baht 24,903 million from Total Equity of the Company, and of its subsidiaries' (Bangchak Green Net Company Limited-BGN, Bangchak Bio Fuel Company Limited-BBF and Bangchak Solar Energy-BSE) total equity of Baht 38 million, Baht 497 million and Baht 150 million respectively, adjusted connected transactions by Baht 358 million.
- 2) The Company's Total Equity as of 31 March 2011 increased by Baht 2,477 million from the end of 2010. The changes in the Company's Equity were as follow;
  - The Company reported Profit of Baht 1,437 million in the first quarter of 2011
  - Holders of BCP141A Debenture exercised their right to convert the debenture worth of Baht 1,040 million to common shares at conversion price of Baht 14.30 per 1 common share, leading to an increase in common share of Baht 73 million (par at Baht 1 per share), and the share premium increased by Baht 967 million.

At the end of March 2011 the Company's equity was Baht 24,903 million, equal to Book Value per Share of Baht 19.93.

- 3) As of March 31, 2011, the Company had quasi-equity instruments (BCP141A DEBENTURE, subordinated convertible debenture and warrant) which were equivalent to 132 million common shares or approximately 15.3% of total shares in full dilution if these were fully converted or exercised.

### 3. **Explanation and Analysis of the Cash Flows Statement for First Quarter of 2011**

- 3.1 For the first quarter of 2011, the Company and its subsidiaries had Beginning Cash and Cash Equivalents of total Baht 9,109 million. During the period, Net Cash decreased from the utilizing in various activities by Baht 7,038 million, of which Baht 5,430 million was used in operating activities, while Baht 1,003 million was used in Investing Activities and Baht 605 million were used in Financing Activities. Hence, Cash and Cash Equivalents as shown in the Consolidated Financial Statements at the end of March 2011 were Baht 2,071 million, which consisted of Baht 1,175 million of the Company, Baht 442 million of



Bangchak Green Net Company Limited, Baht 315 million of Bangchak Bio Fuel Company Limited as well as Baht 139 million of Bangchak Solar Energy Company.

3.2 Cash flow of the Company derived from the Beginning Cash of Baht 8,504 million. During the period, Net Cash decreased by Baht 7,329 million from the following activities;

1) Net Cash received from Operation was Baht 2,216 million;

2) Cash used in Operating assets and liabilities of Baht 7,862 million consisted of

- Cash used in changes in Operating assets of Baht 8,195 million resulting from Baht 2,971 million increase in Inventory, Baht 1,873 million increase in Trade Accounts Receivable, and Baht 3,349 million increase in Other Assets which were Oil fuel fund subsidies receivable increased by Baht 1,349 and Deposit for oil hedging contracts by Baht 2,235 million
- Cash received from changes in operating liabilities of Baht 338 million consisted of Baht 951 million increase in Trade Accounts Payable and Baht 612 million decrease in other liabilities.

3) Net Cash used for Investing Activities was Baht 1,139 million;

- Cash paid for Purchase of property, plant and equipment of Baht 981 million
- Cash paid for capital paid - up of Bangchak Solar Energy Co., Ltd of Baht 150 million.

4) Cash used in Financing Activities of Baht 544 million for repayment of Long-term Loan net with the drawdown of short-term loan.

Thus, at the end of March 2011, the Company's Cash or Cash Equivalents was Baht 1,175 million.

#### **4. Environmental Cost Accounting**

Having the environmental concerns and social responsibilities, since 2005, the Company has prepared the environmental management accounting report (production line) and also published in the Annual Sustainability Report. The environmental cost accounting helps the Company to keep track of related information, which is useful for enhancing the environmental management effectiveness, and resource utilization. The report for the first quarter of 2011 compared to same period of last year is summarized hereunder.



(Unit : Million Baht)	Q1 2011	Q1 2010	Change +/-
<b>Material Costs of Product Outputs</b> : Consist of crude oil, ethanol, bio-diesel, chemical, energy and utilities in production	17,667.87	20,963.97	-3,296.1
<b>Material Costs of Non-Product Outputs</b> : Consist of slop and sludge oil, waste water, chemical surplus	36.15	42.19	-6.04
<b>Waste and Emission Control Costs</b> : Consist of maintenance cost of environmental control equipments and depreciation and other fees	23.87	24.02	-0.15
<b>Prevention and Other Environmental Management Costs</b> : Consist of monitoring and measurement cost, environmental management system expenses	1.54	1.82	-0.27
<b>Benefit from by-product and waste recycling</b> : The revenue realization from liquid sulfur, glycerin, waste paper	(0.97)	(0.49)	-0.49

From the above table, the environmental expense in the first quarter of 2011 as a whole, decreased from the first quarter of 2010 around Baht 3,296 million, or accounting for 15.72%. Most of which, more than 99%, were the Material Costs of Product Outputs. Although the crude oil price had increased substantially in this period but the Company's total environmental expenses decreased as there was a shutdown for refinery maintenance in this quarter.