



บริษัท บางจากปิโตรเลียม จำกัด (มหาชน)

สำนักงานใหญ่ : ชั้น 10 อาคาร A ศูนย์เอนเนอร์ยีคอมเพล็กซ์

555/1 ถนนวิภาวดีรังสิต แขวงจตุจักร เขตจตุจักร กรุงเทพฯ 10900

Head Office : The Bangchak Petroleum Public Company Limited

10<sup>th</sup> Fl., Building A Energy Complex, 555/1 Vibhavadi Rangsit Rd.,

Chatuchak, Bangkok 10900 Thailand

Tel : 66 (0) 2140 8999 Fax : 66 (0) 2140 8900

โรงงาน : 210 หมู่ 1 ซอยสุขุมวิท 64 ถนนสุขุมวิท

แขวงบางจาก เขตพระโขนง กรุงเทพฯ 10260

Refinery : The Bangchak Petroleum Public Company Limited

210 Moo 1 Soi Sukhumvit 64 Sukhumvit Rd., Bangchak,

Phrakonong, Bangkok 10260 Thailand

Tel : 66 (0) 2335 4999 Fax : 66 (0) 2335 4009

ทะเบียนเลขที่ 0107536000269

www.bangchak.co.th

## Management's Discussion and Analysis for Business Operations

For the three-month period and nine-month period ended September 30, 2010

### Business Overview for 2010

#### Oil Price Situation

In the third quarter of 2010, the Dubai crude oil price had narrowly swung around USD 70-75 per barrel before rising up toward the end of the quarter. The main factors to cause a weakening of the oil price consisted of the announcement of the United States' economic indicators reflecting the uncertain recovery of the United States' economy which placed a pressure on the growth of oil demand. This can be seen from the United States' total inventory of the crude oil and finished products volume had increased and reached its all time high as well as the monsoon season in the Atlantic Ocean had no impact on the oil and gas production in the Mexico Gulf, also, the oil supply level from the biggest group of oil producers and exporters or the OPEC group was still over than the targeted production quota. However, the depreciation of the US Dollar against major currencies, FED's ongoing low interest rate policy to stimulate the economy, including, the economy growth sign of China, India, the Middle East, and Russia were the supporting factors of the increase of the oil price in the ending period of the third quarter of 2010.

The table of oil price comparison

USD/BBL

Price	3 <sup>rd</sup> Quarter, 2010			2010	2009	Changing	
	Max	Min	Avg. (A)	Avg. 2 <sup>nd</sup> Quarter (B)	Avg. 3 <sup>rd</sup> Quarter (C)	(A)-(B)	(A)-(C)
DB	78.28	69.15	73.97	78.04	68.02	-4.07	+5.95
UNL95/DB	11.37	6.73	8.59	9.46	8.84	-0.87	-0.25
GO/DB	14.48	9.67	12.39	11.29	6.88	+1.10	+5.51
FO/DB	-3.14	-7.21	-4.82	-6.73	-3.11	+1.91	-1.71

The tendency of an increase of the crude oil price in the last quarter of this year is supported by the depreciation of the US dollar against the major currencies, the tap of France's emergency oil reserves after the protest in France which may have an affect on the oil finished products in Europe, and the analysts' majority belief of the increase of the global oil demand caused by economic stimulus policy of many countries. However, the increase of benchmark interest rate of China's Central Bank and the high level of the global oil inventory volume are the factors to weaken the oil price to further decrease.



### Production and Distribution

In the third quarter of 2010, the Company's crude run was at an average of 88.0 thousand barrels per day increased from 81.7 thousand barrels per day in the third quarter of 2009. The production process was run as a Complex Refinery from the PQI project which had started its commercial operation since December 7, 2009 onwards.

In terms of oil distribution in the third quarter of 2010, the Company had a total sales volume (excluding lubricant) at an average of 101.7 thousand barrels per day, similar to the same period of last year's at 101.0 thousand barrels per day. The distribution through marketing business was accounted for 66.0 thousand barrels per day increased from 60.6 thousand barrels per day of the third quarter of last year. According to the information during Jul-Aug 2010 of the Department of Energy Business, to consider the distribution through gas stations, it shows that the total distribution of all brands increased by 0.9% in average when compared with the same period of 2009. Identically, the Company's sales through gas station increased approximately by 1.3% with the market share of 13.9%, ranked the third place.

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

### Net Profit/(Loss) Analysis

- 1) For nine-month period, the consolidated financial statements recorded net profit of Baht 1,761 million, which was the Company's net profit of Baht 1,659 million, the subsidiaries' (Bangchak Green Net Company Limited-BGN and Bangchak Bio Fuel Company Limited-BBF) net profit of Baht 120 million but the consolidated figures were adjusted by connected transactions of Baht 18 million. While taking out the profit attributed to Minority interests of Baht 37 million, remaining to equity holders of the Company of Baht 1,724 million (EPS 1.47 Baht).
- 2) For the third quarter of 2010, the consolidated financial statements recorded net profit of Baht 523 million, which was the Company's net profit of Baht 470 million, the subsidiaries' net profit of Baht 51 million and the consolidated figures were adjusted by connected transactions of Baht 2 million. While taking out the profit attributed to Minority interests of Baht 16 million, remaining to equity holders of the Company of Baht 507 million (EPS 0.43 Baht).

The net profit attributed to equity holders of the Company decreased from Baht 2,151 million in the third quarter of 2009 to Baht 507 million in the third quarter of 2010 mainly came from the decrease of the profit from oil hedging transaction. Normally, the Company would consider entering hedging transaction normally 1 year in advance. Since



in 2009, the unfavorable futures market conditions had limited the window to enter the market to perform the transaction for 2010. Therefore the results of hedging transaction in the year 2010 will not receive as much gain as last year performance. In addition, the oil price in the World's market had decreased (comparing qoq) in the third quarter which caused the stock loss to the Company. On the other hand, in the same period of last year, the Company had stock gain from an upward trend of oil prices.

- 3) The Company's base performance EBITDA for the third quarter of 2010 was Baht 1,242 million. Combining with another Baht 43 million of gain from hedging transaction and Baht -139 million from inventory effect, total accounting EBITDA was Baht 1,146 million derived from total Gross Integrated Margin-GIM at USD 6.89 per barrel from Gross Refining Margin-GRM and Marketing Margin-MKM. The breakdown EBITDA by business units were summarized as follows:

*Table: Details of breakdown EBITDA*

(Million Baht)	3 <sup>rd</sup> Quarter,10 (A)	3 <sup>rd</sup> Quarter,09 (B)	Changing +/- (A) - (B)
▪ Base Performance EBITDA	1,242	746	+496
- Refinery business	883	372	+511
- Marketing business	359	374	-15
▪ Gain from hedging	43	1,332	-1,289
▪ Gain(loss) from inventory effect	(139)	1,208	-1,347
▪ Total Accounting EBITDA	1,146	3,286	-2,140
- Refinery business	787	2,912	-2,125
- Marketing business	359	374	-15

- Focusing on Refinery Business, base performance EBITDA was Baht 883 million, increased by Baht 511 million of the same period of last year due to better base GRM. After combining with hedging gain and inventory effect, total accounting EBITDA was Baht 787 million, lower than Baht 2,912 million from the same period of last year. The GRM for this period, excluding inventory effect, was USD 5.45 per barrel with the Company's crude run at 88.0 thousand barrels per day, comparing to that period of last year which GRM, excluding inventory effect, was USD 8.52 per barrel with the Company's crude run at 81.7 thousand barrels per day. GRM analysis is as follows:



USD/BBL

GRM from	3 <sup>rd</sup> Quarter, 10	3 <sup>rd</sup> Quarter, 09	Changing +/-
Base GRM	5.28	3.32	+1.96
GRM Hedging	0.17	5.20	-5.03
Inventory Effect and LCM	(0.55)	4.71	-5.26
Total	4.90	13.23	-8.33

**Base GRM** increased by USD 1.96 per barrel due to transformation of production process from Simple Refinery to Complex Refinery. In last year, the Company received refining margin from fuel oil export market at premium price of as high as USD 6.20 per barrel. However, in this year, the production volume of fuel oil decreased and the premium from the spot market decreased to only USD 1.17 per barrel which was also the result from changing component of fuel oil. Nonetheless, the Company received better refining margin from an increase of diesel production and better spread between diesel and crude oil. The spread of finished products and other crude oil maintained at the same level with the same quarter of last year. The following table illustrates the spread of finished products and crude oil.

USD/BBL

Products crack spread	3 <sup>rd</sup> Quarter,10	3 <sup>rd</sup> Quarter,10	Changing +/-
UNL95/DB	8.59	8.84	-0.25
IK/DB	12.86	7.20	+5.66
GO/DB	12.39	6.88	+5.51
FO/DB	-4.82	-3.11	-1.71

**Oil hedging** decreased by USD 5.03 per barrel due to the spread of finished products and crude oil was at low level in last year which caused an unfavorable market condition for entering hedging transaction. Although, in the third quarter of 2010, the hedged position was at around 21% of the average refinery production level (the hedging policy stipulates at around 30%), the actual spread was faintly different from the hedged position, leading to slight gain from the hedging transaction. However, the hedged position last year was at 50% of the average refinery production level and the actual spread was much lower than the hedged position. Thus, the Company received much gain from the transaction. Therefore, the determination of forward contract price depends mainly on the market situation at certain period.



**Inventory Effect** It reports a stock loss of USD 0.55 per barrel in this quarter due to the ongoing decrease of the oil prices in the World's market from the second quarter of 2010 when it was compared with the same period of last year when the oil prices were rising and led to the stock gain of USD 4.71 per barrel in the third quarter of 2009.

- The EBITDA from the marketing business was at Baht 359 million which was lower than the third quarter of last year's EBITDA by Baht 15 million. In the third quarter of this year, the Company's net marketing margin (excluding lubricant) was at Baht 0.53 per litre (around USD 2.66 per barrel) lower than last year's net marketing margin of around Baht 0.59 per liter (around USD 2.76 per barrel) due to the fact that at the end of the third quarter of 2010 World oil price began rising led the depressed marketing margin. Additionally, the sales volume through the marketing business increased from 60.6 thousand barrels per day (accounting for approximately 295 million liters per month) to 66.0 thousand barrels per day (accounting for 322 million liters per month).

## 1.2 Income Analysis

- 1) Revenues from sale and services of the Company as well as its subsidiaries for nine-month period of 2010 were Baht 100,145 million, comprised of the Company's sales revenue of Baht 98,977 million and its subsidiaries' (BGN and BBF) of Baht 16,022 million, adjusted by connected transaction of Baht 14,855 million which mostly associated with the sales transactions from the Company to BGN.
- 2) For the third quarter of 2010, revenues from sale and services of the Company as well as its subsidiaries were Baht 33,207 million, comprised of the Company's sales revenue of Baht 32,783 million and its subsidiaries' of Baht 5,209 million, adjusted by connected transaction of Baht 4,785 million which mostly associated with the sales transactions from the Company to BGN. The major combinations of the changes in the Company's revenues comparing to those of last year were as follows:
  - Revenues from sale and services (including sale through refinery business and marketing business) were higher than the same period of last year by Baht 2,535 million, or increased by 8.4%. Owing to higher level of world oil price caused the average oil selling price increased by 7.0%, while total sales volume was close to the same period last year.



- Gain from crude and product oil price hedging contract decreased by Baht 1,289 million, or decreased by 96.7%. It was caused by the hedging transaction as analyzed in the aforementioned refining margin from GRM hedging.
- Gain on foreign exchange increased by Baht 288 million, or increased by 199.3%, after the appreciation of the Thai Baht that led to the profit from Mark-to-Market of foreign currency trade account payables and FX hedging contracts. As the result of the Company had adjusted the proportion of the asset and the liability in the US Dollar to be in balance with the US Dollar revenue, also known as the Natural Hedging, to protect the business's profit from the fluctuation of the foreign exchange rate.

### 1.3 Expense Analysis

- 1) Total expenses of the Company along with its subsidiaries for nine-month period of 2010 primarily were costs of sales and services of Baht 96,237 million, which involved the Company's costs of Baht 95,622 million and its subsidiaries' (BGN and BBF) of Baht 15,398 million, adjusted by connected transaction of Baht 14,783 million, which mostly were cost of sales from the Company to BGN.
- 2) For the third quarter of 2010, Total expenses of the Company along with its subsidiaries primarily were costs of sale and services of Baht 32,148 million, which involved the Company's costs of Baht 31,918 million and its subsidiaries' of Baht 4,994 million, adjusted by connected transaction of Baht 4,764 million, which mostly were cost of sales from the Company to BGN. Major components in changes of the Company's expenses comparing to those of last year were as follows:
  - Cost of sales increased by Baht 3,927 million, or increased by 14.0% because the cost of oil prices increased following the oil prices in the World's markets.
  - Financial cost increased by Baht 109 million, or increased by 97.1% after the Company realized the interest expense for the PQI into the income statement since December 7, 2009 while the interest expense of such project in last year was capitalized as the cost of the project during the construction process.
  - In the third quarter of 2010, the Company had realized the tax privilege from the BOI of Baht 78 million for the investment project worth Baht 111 million with natural gas as the fuel replacement of fuel oil, leading to a decrease of the corporate income tax, accounting for the Effective Tax Rate of 17% for this quarter.



## 1.4 Performance Analysis by Business

Unit : Million Baht

	3 <sup>rd</sup> Quarter 2010	3 <sup>rd</sup> Quarter 2009	+ / (-)	9 months 2010	9 months 2010	+ / (-)
<b>Intake</b>						
• Refinery business (KBD)	88.0	81.7	+6.3	84.9	82.4	+2.5
• Biodiesel (B100) (KL/Day)	78.6	-	n/a	77.1	-	n/a
<b>Revenues from sale and services</b>	33,207	30,542	+2,665	100,145	79,177	+20,968
• Refinery business	31,822	29,337	+2,485	96,115	75,637	+20,478
• Marketing & service station	23,050	20,744	+2,306	70,386	53,693	+16,693
• Biodiesel (B100)	586	-	+586	1,637	-	+1,637
• Connected transaction	(22,251)	(19,539)	(2,712)	(67,993)	(50,153)	(17,840)
<b>EBITDA</b>	1,221	3,326	-2,105	4,008	10,420	-6,412
• Refinery business	787	2,912	-2,125	2,699	9,004	-6,305
• Marketing & service station	361	419	-58	1,123	1,426	-303
• Biodiesel (B100)	73	(5)	+78	186	(10)	+196
<b>Net Profit</b>	523	2,150	-1,627	1,761	6,443	-4,682
• Refinery business	305	1,964	-1,659	1,102	5,739	-4,637
• Marketing & service station	166	191	-25	536	714	-178
• Biodiesel (B100)	52	(5)	+57	123	(10)	+133

## 1.5 Profitability Analysis

	Consolidated		Company	
	3Q2010	3Q2009	3Q2010	3Q2009
▪ Sales and Services, Million Baht	33,207	30,542	32,783	30,247
▪ Net Profit (Loss), Million Baht	507	2,151	470	2,141
▪ Net Profit Margin, %	1.57	7.04	1.43	7.08
▪ Earning Per Share, Baht/Share	0.43	1.84	0.40	1.83
▪ Return on Equity-ROE, %	1.96	8.94	1.82	8.90
▪ ROE (excluding inventory effect), %	2.35	7.40	2.19	7.34

Net profit margin for the third quarter of 2010 as shown in the consolidated financial statement and the Company's were 1.57% and 1.43% respectively, decreased from 7.04% and 7.08% at the same period of last year. This came from changing in refining margin as well as marketing margin as aforementioned in the section of net profit (loss) analysis. The return on equity then decreased from 8.94% to 1.96% for the consolidated financial statement.



## 2. Explanation and Analysis of the Financial Position as of September 30, 2010 compared with December 31, 2009

	Consolidated		Company	
	Sep 30, 2010	Dec 31, 2009	Sep 30, 2010	Dec 31, 2009
▪ Total Assets, Million Baht	52,644	53,891	51,576	52,901
▪ Total Liabilities, Million Baht	26,729	27,938	25,864	27,069
▪ Total Equity, Million Baht	25,915	25,953	25,692	25,832
▪ Current Ratio , Times	2.09	1.78	2.12	1.80
▪ Debt to Equity, Times	0.63	0.61	0.61	0.59
▪ Book Value, Baht/Share	22.05	22.11	21.96	22.08

### 2.1 Assets

- 1) At the end of third quarter of 2010, total assets of the Company and its subsidiaries were totally Baht 52,644 million, which comprised of the Company's total assets of Baht 51,576 million, its subsidiary's of Baht 1,880 million from BGN and BBF, adjusted by connected transactions of Baht 812 million which was mainly trade account receivable-BGN of Baht 485 million.
- 2) The Company's total assets at the end of third quarter decreased by Baht 1,325 million, or decreased by 2.5% compared to the end of 2009. The major changes of assets were as follows:
  - The inventory decreased by Baht 804 million, or decreased by 5.9% due to the decrease of inventory level of 0.12 million barrels.
  - Other current assets decreased by Baht 719 million, or decreased by 64.1%, mainly came from the decrease of the account receivables from the oil hedging transaction in December 2009 and the payment was received in January 2010. Also, the decrease of accrued VAT receivable was caused by a slight change of the oil prices in 2010 from the end of 2009. Thus, the Company was able to better balance the purchase tax and sales tax.
  - Other long-term investments increased by Baht 91 million, or increased by 45.6%, most of Baht 93 million came from the acquisition of 1,165,500 common shares of ASEAN Potash Public Company Limited (APMC), or around 9.9% of the total common shares. Thus, at present the Company holds 16.4% stake in APMC.



## 2.2 Liabilities

- 1) At the end of the third quarter of 2010, total liabilities of the Company and its subsidiaries were Baht 26,729 million, which consisted of Baht 25,884 million of the Company's total liabilities and Baht 1,445 million of subsidiaries' total liabilities, adjusted by connected transactions of Baht 600 million most of which resulted from trade account payable of Baht 485 million of BGN's.
- 2) Comparing to the end of 2009, the Company's total liabilities decreased by Baht 1,185 million, or decreased by 4.4%, at the end of this period. The major changes of liabilities were as follows:
  - Short term loan decreased by Baht 800 million, or decreased by 100% after the Company's loan repayment to the lender.
  - Accrued Corporate Income Tax decreased by Baht 1,256 million, or decreased by 93.0%, due to Baht 1,350 million payment for the corporate income tax of the accounting period 2009 (the second half of the year) and the Company has set the provision of Baht 94 million for the accrued corporate income tax for the third quarter of 2010.
  - Liabilities from the hedging transaction decreased by Baht 235 million, or decreased by 95.3% due to the appreciation of the Thai Baht which lessen the debt burden of the foreign exchange rate hedging transaction.

## 2.3 Shareholders' Equity

- 1) At the end of the third quarter of 2010, the consolidated total shareholders' equity were Baht 25,915 million, which comprised of Baht 25,692 million from the total shareholders' equity of the Company and Baht 435 million of subsidiaries' equity, adjusted connected transactions by Baht 212 million.
- 2) Bangchak's shareholders' equity decreased by Baht 140 million from the end of 2009, or decreased by 0.5% due to the Company's two times dividend payment (Baht 0.80 per share for the 2009 operating results and Baht 0.50 per share for the first 6 months of 2010 operating results), totaling Baht 1,521 million and Baht 278 million of the disposal of capital surplus on revaluation of assets. However, the Company's net profit of Baht 1,659 million for the 9 month period in 2010 led to the shareholders' equity of Baht 25,692 million, or accounting for the Book Value per Share of Baht 21.96
- 3) As of Sep 30, 2010, the Company had quasi-equity instruments (CDDR, subordinated convertible debenture and warrant), if these were fully converted or exercised,



equivalent to 212 million common shares or approximately 15.3% of total shares in full dilution.

### **3. Explanation and Analysis of the Cash Flows Statement for nine-month period, ending September 30, 2010**

3.1 For this nine-month period, the Company and its subsidiaries had beginning cash and cash equivalents of total Baht 2,136 million. During the period, net cash increased from the utilizing in various activities by Baht 237 million, of which Baht 1,945 million were received from operation, while Baht 572 million were used in investing activities and Baht 1,136 million were used in financing activities. Hence, cash and cash equivalent as shown in the consolidated financial statements at the end of the third quarter of 2010 were Baht 2,373 million, which consisted of Baht 1,993 million of the Company and Baht 226 million of BGN as well as Baht 154 million of BBF.

3.2 Cash flow of the Company came from the beginning cash of Baht 1,711 million, during the period, net cash increased by Baht 282 million from the following activities;

1) Net cash received from operation was Baht 1,945 million;

- Profit in cash of Baht 3,732 million from the operation before the change of assets and operating liabilities.
- Cash of Baht 684 million from changing in operating assets i.e. the decrease of inventory by Baht 804 million while other assets increased by Baht 120 million.
- Interest and corporate income tax, the Company paid by cash totaling Baht 2,471 million.

2) Net cash used for investing activities was Baht 538 million;

- Cash used for investment in fixed assets-equipments of Baht 488 million.
- The payment of the share acquisition for investment in APMC was at Baht 93 million.
- The Company received dividend of Baht 18 million from BGN and received Baht 25 million from other investing activities.

3) Net cash used for financing activities was Baht 1,125 million;

- Short term loan repayment of Baht 800 million.
- Cash received from long term loan of Baht 1,640 million.
- Long term loan repayment of Baht 444 million.



- 2 times of dividend payment to the shareholders in total Baht 1.30 per share, totaling Baht 1,521 million.

Therefore, at the end of the third quarter of 2010, the Company's cash and cash equivalents was Baht 1,993 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 Sustainability Report. The environmental cost accounting helps the Company to keep track the related information, which is useful for enhancing the environmental management effectiveness, and resource utilization. The report for the third quarter of 2010 compared to the same period of last year is summarized hereunder.

(Unit : Million Baht)	3 <sup>rd</sup> Quarter 2010	3 <sup>rd</sup> Quarter 2009	Change +/-
<b>Material Costs of Product Outputs</b> : Consist of crude oil, ethanol, bio-diesel, chemical, energy and utilities in production	20,180	18,030	+2,150
<b>Material Costs of Non-Product Outputs</b> : Consist of slop and sludge oil, waste water, chemical surplus	26	23	+3
<b>Waste and Emission Control Costs</b> : Consist of maintenance cost of environmental control equipments and depreciation and other fees	26	21	+5
<b>Prevention and Other Environmental Management Costs</b> : Consist of monitoring and measurement cost, environmental management system expenses	2	2	-
<b>Benefit from by-product and waste recycling</b> : The revenue realization from liquid sulfur, glycerin, waste paper	-6	0.1	-6

The above table illustrates that the total expenses in the third quarter of this year were higher than the total expenses in the same period of last year. Most of the expenses of more than 99% were from Material Costs of Product Outputs which were mainly driven by an increase of the crude oil price which was higher than the third quarter of last year. The Material Costs of Non-Product Outputs increased by Baht 3 million, or increased by 13.0%, most of which were caused by slop oil expense relating with the increase of the crude oil price. However, the slop oil volume decreased from the same period of last year approximately by 57% due to the Company's test run of the PQI refining units in the previous year leading to an unusual volume of the slop oil. In addition, Waste and Emission Control Costs increased by Baht 5 million or by 23.8% from the same period of the previous year due to an increase of periodical depreciation of the pollution



control equipment. Prevention and Other Environmental Management Costs were at the same level as last year since the Company has continuously placed an emphasis upon following and examining quality of the environment.

