noble group

Management's Discussion and Analysis of Financial Condition & Results of Operations Three Months Ended 31 March 2017

Financial Results

(US$ million / million tonnes)	Three Months Ended 31 Mar 2017	31 Mar 2016
Tonnage[1]	**46.9**	**56.8**
Revenue[1]	**12,489.3**	**11,076.0**
Operating income from supply chains, net[1]	**(2.6)**	**289.7**
Operating income margin	n/a	2.62%
Loss on supply chain assets[1]	(10.4)	(13.3)
Share of profits and losses of joint ventures and associates[1]	(4.7)	(15.7)
Total operating income/(loss)[1]	**(17.7)**	**260.7**
Other income net of other expenses[1]	1.4	2.2
Selling, administrative and operating expenses[1]	(91.1)	(137.7)
Profit/(loss) before interest and tax[1]	**(107.4)**	**125.2**
Net finance costs[1]	(43.6)	(36.7)
Taxation[1]	20.8	(5.0)
Adjusted net profit/(loss)[1]	**(130.2)**	**83.5**
Exceptional items, net of tax[2]	8.3	(2.9)
Losses from discontinuing businesses and other expenses, net of tax[3]	(7.6)	(40.1)
Non-controlling interests	0.1	-
Net profit/(loss)	**(129.4)**	**40.5**

(1) Adjusted for exceptional items and losses from discontinuing or to be discontinued businesses and other expenses. See notes 2 and 3 below and refer to SGX results announcement note 1(a)(i)(A) for additional disclosure.

(2) Includes exceptional items in the Group's Operating Income from Supply Chains along with other non-operational items such as impairment losses on supply chain assets, re-measurement gains on pre-existing interests in joint ventures and share of profits and losses of disposed joint ventures and associates.

(3) Represents results of businesses which are discontinuing or are to be discontinued in the near future and costs associated with repositioning the Group's cost structure, including headcount reductions. These businesses include certain energy and metals, minerals and ores product divisions in North America and Europe. There has not been any significant variance or notable items during the period related to these businesses.

Overview

The Group has made significant progress in carrying out the cost reduction initiatives which were announced during the FY2016 results presentation in February. Headcount has been reduced and various corporate functions have been further rationalized, resulting in close to 45% decline in Selling, Administrative and Operating ("SAO") expenses to US$91 million in Q1 2017. Management continues to be focused on driving down costs and resetting the cost structure in order for us to achieve our previously targeted SAO expense levels.

The Group's underlying physical franchise remains strong and the portfolio of businesses that we have built over the years are contributing positively. However, the operating environment was very challenging for the Group during the first three months of 2017. The dislocation in coal markets weighed on profitability, against the background of higher oil prices which impacted working capital levels.

The 17% year-on-year decline in total Group tonnage for the three month period ended 31 March 2017 was largely due to the roll-off of a significant long term contract in our iron ore business and our capacity to support oil liquids flows in the higher price environment within the current liquidity framework. Overall coal volumes were higher quarter-to-quarter and oil prices have subsided post quarter end.

The Energy segment was profitable with a solid performance shown by our Oil Liquids and Gas & Power businesses, while our Energy Coal business continued to gain market share in the seaborne market. However, both the Energy Coal and Carbon Steel Materials businesses were impacted by the sharp drop in coal prices during the period which created price dislocations and a drop in liquidity in the coal markets, impacting the hedges that are in place against its existing and future exposures. On the other hand, the sustained low volatility in the oil liquids market impacted margin opportunities as we manage within a constrained liquidity framework.

In February, the Group closed a new US$1 billion revolving borrowing base facility, which was established to support the businesses of Noble Clean Fuels Limited, a UK incorporated wholly owned subsidiary of the Group. The facility allows for the drawdown of loans as well as the issuance of trade finance instruments. In March, the Group took advantage of market conditions to diversify its funding sources and accessed the capital markets for a US$750 million 5 year bond. The proceeds have been used for refinancing.

In May, the Group repaid the maturing amount under the term loan as the Group continues to reduce its requirements for large syndicated credit facilities in line with its smaller business structure. The Group continues to be in discussions with banks to ensure that the Group's facilities provide the liquidity required and support the structure of the Group's business going forward.

The Group's priorities continue to be to focus on the core franchise businesses, maintaining the strong customer and supplier relationships, and continuing to implement the cost savings initiatives to reset the cost base, underpinned by a disciplined management of the balance sheet and liquidity profile. The Group also continues to review strategic alternatives in parallel.

Segment Presentation

Following the repositioning of the Group in 2016, including the sale of Noble Americas Energy Solutions, European Gas & Power and a reduction in global Metals, the Group has revised its segmental breakdown for reporting purposes to appropriately reflect its business structure.

The segments have been revised to include those businesses that operate in a similar market environment and to reflect the common business drivers of the respective businesses along with their product and service similarity.

Group results will now be reported under two segments – namely, the Energy Segment, which combines the former Energy and Gas & Power segments and includes the Oil Liquids, Gas & Power and Energy Coal businesses; and the Metals, Minerals and Ores Segment, which combines the former Metals & Mining and Corporate segments and includes the Metals, Carbon Steel Materials and Logistics businesses.

Energy Segment

	Three Months Ended		
(US$ million / million tonnes / million MWh)	**31 Mar 2017**	**31 Mar 2016**	**% change**
Volume (million tonnes)(1)	35.0	41.5	-16%
Volume (million MWh)(1)(2)(3)	61.3	99.3	-38%
Revenue(1) (3)	11,292	9,617	17%
Operating income from supply chains(1)(3)(4)	27	240	-89%

(1) Adjusted for discontinuing or to be discontinued businesses and other expenses.
(2) Gas & Power volume conversions from MMBTu to MWh based on current market heat rates.
(3) 2016 segment results include Noble Americas Energy Solutions.
(4) Adjusted for exceptional items.

The Energy Segment includes the following businesses:

- Oil Liquids: a global business which trades and provides supply chain and risk management services in crude oil, distillates, gasoline, renewables and other refined products.
- Gas & Power: comprised of our North American business which trades and provides supply chain management services in gas and power and our global LNG business. On 1 December 2016, the Group disposed of Noble Americas Energy Solutions which offered supply and risk management services in gas and power to retail, commercial and industrial customers in the United States.
- Energy Coal: a global business which trades and provides supply chain and risk management services in bituminous and sub-bituminous energy coal.

Oil Liquids: Market Overview

Selected Average Commodity Prices	Three Month Average		
	31 Mar 2017	**31 Mar 2016**	**% change**
S&P GSCI Energy Index	179.20	325.15	-45%
Crude Oil – Brent (US$/bbl)	54.67	35.20	55%
Crude Oil – WTI (US$/bbl)	51.89	38.62	34%
RBOB Gasoline (US$/gallon)	1.58	1.18	34%
NYMEX Heating Oil (US$/gallon)	1.61	1.08	49%

Source: Bloomberg

- Crude prices were range bound following the rally in prices in December 2016 as a result of the OPEC production restraint agreement of 30 November 2016. However, US onshore stocks continued to build, resulting in a drop in prices.

- Gasoline inventories fell in March 2017, largely due to a combination of strong export demand and low import volume, rather than domestic US demand growth. This fall in inventory levels caused flat price to increase but prices down the curve remained relatively unchanged given inventory levels still exceed the last 5 year average.
- US distillate stocks also declined on the back of increased demand, but remain above the last 5 year average.
- The oil liquids market continues to be affected by potential policy changes to be enacted by the Trump administration.

Oil Liquids: Performance

- Capital constraints and focus on liquidity continued to impact performance in the Oil Liquids business, while margin opportunities were impacted by the sustained low volatility.
- Volumes fell 19% year on year and 7% quarter to quarter while revenue increased 18% both year on year and quarter to quarter, largely due to increase in prices through the respective periods.
- The Gasoline business continues solid performance on the back of our blending operations and storage facilities on the US east coast.
- In Distillates, the Group continues to demonstrate strength in its Latin American flows with key customers in Ecuador and Chile.
- The Renewables market has been under pressure pending potential changes in the regulatory framework in the US.

Energy Coal: Market Overview

Selected Average Commodity Prices	Three Month Average		
	31 Mar 2017	**31 Mar 2016**	**% change**
Coal – API4 (US$/t)	82.66	52.15	59%
Coal – API2 (US$/t)	81.36	45.46	79%
Coal – Newcastle FOB (US$/t)	81.54	50.46	62%

Source: Bloomberg

- Following the strong rally in 2H 2016, seaborne energy coal indices declined during the first three months of 2017 with a particularly sharp drop in the Newcastle index.
- The decline can be partially attributed to seasonality with the easing of pressures due to winter restocking in Northeast Asia and Europe, but this sharp price correction resulted in a breakdown in the correlation between the indices and a drop in liquidity in the coal markets.
- Strength in demand from China supported a rally in the Chinese domestic market while the Newcastle price dropped. Increase in safety inspections at mines throughout the country and resulting mine closures, as well as lower than expected hydro power generation led to domestic market tightness.

- The European market also remained strong until February 2017, as a result of nuclear plant outages for inspection in France and gas storage disruptions.
- On the supply side, output from Indonesia and Australia remained flat year-on-year due to weather related disruptions.

Energy Coal: Performance

- Energy coal continues its underlying solid performance in the physical markets as we continue to gain market share in the seaborne market.
- Mines in Indonesia are slowly ramping up production as prices have recovered and somewhat stabilized, allowing the business to benefit from its strong portfolio of offtake and marketing agreements and increased origination from Indonesia.
- Increased demand from China and continued strong demand in Asia, supported by our solid long term relationships, supported underlying performance.
- However, as mentioned above in the market overview, there were exceptional movements and dislocation in the coal markets with prices decoupling, market liquidity dropping significantly and long term relative correlations being significantly disrupted. This impacted the effectiveness of the hedges that were in place against existing and future volumes. The portfolio has been restructured to reflect what we consider to be a permanent and fundamental change in the coal markets.

Gas & Power: Market Overview

Selected Average Commodity Prices	**Three Month Average**		
	31 Mar 2017	**31 Mar 2016**	**% change**
Gas – Henry Hub (US$/mmBtu)	3.06	1.98	55%
Gas – NBP (US$/mmBtu)	6.02	4.29	40%
LNG Spot JKM (US$/mmBtu)	7.08	5.06	40%
USA PJM Baseload (US$/MWh)	27.00	33.94	-20%

Source: Bloomberg

- The first three months of 2017 were exceptionally warm, keeping US natural gas and power markets volatile. Lower heating-related natural gas demand helped lift US gas inventory expectations, particularly during February, sending US natural gas prices temporarily below US$3/mmBtu.
- However, stronger natural gas exports and lower production has resulted in a significantly lower level of gas in storage than the prior year and the market has entered Q2 2017 with uncertainty regarding gas availability for next winter.
- In LNG, the JKM price for physical LNG dropped throughout the first three months of 2017. Supply growth continues with new production, which came online in Q4 2016, ramping up to full utilization.

Gas & Power: Performance

- The North American Gas & Power business performed well on its transport and supply deals, with notable returns from supplying gas in the Pacific North West from Canada into the West Coast of the US. In addition, the business benefited from volatility in the Eastern power markets.
- The LNG business has been involved in selective flows, progressively building out its portfolio of customers while developing longer term contracts in the emerging markets.

Metals, Minerals and Ores Segment

	Three Months Ended		
(US$ million / million tonnes)	31 Mar 2017	31 Mar 2016	% change
Volume(1)	12.0	15.3	-22%
Revenue(1)	1,197	1,459	-18%
Operating income from supply chains(1)(2)	(29)	49	-

(1) Adjusted for discontinuing or to be discontinued businesses and other expenses.
(2) Adjusted for exceptional items.

The Metals, Minerals and Ores Segment includes the following businesses:

- Metals: comprised of our Asian base metals business which trades and provides supply chain management services in copper, zinc, lead, nickel and other raw materials, and our global aluminium business which trades and provides supply chain management services in aluminium, alumina and bauxite.
- Carbon Steel Materials: an Asia and EMEA focused business which trades and provides risk management and logistics services for the steel complex in iron ore, metallurgical coal, metallurgical coke, and specialty ores and alloys.
- Logistics: which provides internal and external customers with ocean transport in the dry bulk segment, long term freight solutions and freight market guidance.

Metals: Market Overview

Selected Average Commodity Prices	Three Month Average		
	31 Mar 2017	31 Mar 2016	% change
S&P GSCI Industrial Metals Index	324	304	7%
LME cash aluminium price (US$/t)	1,850	1,516	22%
LME cash copper price (US$/t)	5,834	4,672	25%
LME cash zinc price (US$/t)	2,781	1,679	66%
Bauxite – China CFR (US$/t)	48	53	-9%

Source: Bloomberg

- Base metals prices continued the rally that began in H2 2016, on the back of optimism about US infrastructure spending and economic growth.
- Reduction in inventory levels of metals such as aluminium and zinc also drove prices higher. Movement in these markets continue to be dominated by China and environmental regulation and policy changes in the country will continue to be a key influence on supply and demand fundamentals.

Metals: Performance

- In Aluminium/Alumina/Bauxite, we are focused on the vertically integrated supply chain (including the Jamalco asset). Jamalco is operating smoothly and its performance has benefitted from the various cost reduction initiatives that were implemented in 2016.
- Base Metals has been impacted by the cautious approach to liquidity with a decline in volume and profitability. The business, however, continues to focus on a measured build out of its business based on existing relationships in our key origination markets – namely China, Mongolia and Central Asia – with sales into South East Asia, Middle East and Europe.

Carbon Steel Materials: Market Overview

Selected Average Commodity Prices	Three Month Average		
	31 Mar 2017	**31 Mar 2016**	**% change**
Met Coal – Platts PLV US$/tonne	169	77	120%
Iron Ore - US$/tonne	84	48	75%

Source: Platts, Bloomberg

- The metallurgical coal market has experienced extreme volatility with a significant fall in prices since reaching record levels in November 2016, as new supply came online in response to the price environment and restocking demand in H2 2016.
- China policy has also driven market sentiment and price movements with domestic China met coal supply recovering partially from Q4 2016 levels.
- On the other hand, iron ore prices continued to increase over most of the first three months of 2017, with a correction starting towards mid-March as inventory levels at Chinese ports reached record levels.
- In April, tropical cyclone Debbie created a major disruption in Australian coal supply from Queensland, triggering a sharp jump in prices in early April but prices have started to correct since mid-April.

Carbon Steel Materials: Performance

- Tonnage and performance in Iron Ore was impacted by the roll-off of a significant long-term contract, while Special Ores, including manganese and chrome, continued to outperform.
- In Met Coal and Coke, performance was impacted by falling prices, given the challenges faced in efficiently implementing a comprehensive hedging strategy due to the depth of liquidity in the market, especially on the back of prevailing volatility and market uncertainty.
- We continue to expand our market share with Chinese and Indian steel mills. We are also expanding our origination markets into Southeast Asia, Latin America and Africa, becoming the only global supplier with this level of diversity.

Logistics: Market Overview

- Q1 2017 saw continued market improvement in the dry bulk sector resulting from a large scrapping program which took place in H2 2016, the third highest demolition on record. This created tighter supply while seaborne demand for dry bulk commodities increased.
- The steady increase in the dry bulk freight market continues to be led by the Cape Size sector.

Logistics: Performance

- The Logistics business took advantage of the strength in the market to lock in profits by lengthening the tenor of the charters.
- Over 90% of the volume of products moved are in hard commodities while the remainder is in bulk agriculture products.

Principal Associated Companies

The following associated companies are all publicly listed. Further information can be found on the companies' own websites and stock exchanges.

- **Yancoal,** listed on the ASX, saw its latest quarterly production of salable coal rise by 32% to 4.2 million tonnes on the prior year while sales were up 55% to 5.0 million tonnes, also over the prior year. More notably, the increase in output was largely due to the Moolarben Stage Two expansion with output at Moolarben up 65%. Once fully developed, the integrated Moolarben Coal Complex (Stage 1 and Stage 2 combined) will produce up to 17 million tonnes of Run of Mine (ROM) coal per annum for a period of 24 years.

- Met coal sales were up year on year in Q1 2017 by 28 % to 1.9 million tonnes while thermal coal sales rose 77% to 3.1 million tonnes.

- On 13 April 2017, the company received confirmation from the Foreign Investment Review Board that it had no objection to the proposed acquisition of Coal and Allied from Rio Tinto, on completion of which Yancoal would become Australia's largest pure play coal producer.

- **Aspire Mining** is an ASX listed company with a primary focus on the development of coal resources in Mongolia, especially for coal used in the steel making industry. The company is the largest coal tenement holder in the Orkhon-Selenge Coal Basin in Northern Mongolia and it wholly owns the Ovoot Coking Coal Project. The Ovoot project is a large scale coking coal project with a current JORC Probable Reserve of 255 million tonnes.

- Aspire also has an indirect interest in the Nuurstei coking coal project. Nuurstei confirmed its first JORC coal resource of 12.85 million tonnes, with the characteristics of high quality hard coking coal. Additionally, Aspire Mining has signed an agreement with the Mongolian Government, owner of the Tavan Tolgoi Coal Mine, to look into blending coal opportunities with Aspire's Ovoot mine.

- The company is also actively involved in facilitating and promoting the required rail based infrastructure solutions via its involvement in Northern Railways LLC, a company backed by a consortium including Aspire, which is currently progressing the development of the Erdenet – Ovoot rail section of a key link between Tianjin and the Trans-Siberian railway. China Development Bank has issued an expression of interest to fund up to 75% of the engineering, procurement and construction contract cost to build the railway, while in the latest quarter the first MOU with the first potential user of the railway – the Huren Chuulut iron ore project has been signed.

- **Xanadu** is an ASX listed copper and gold exploration company with several advanced exploration projects in Mongolia's highly mineralized and vastly underexplored South Gobi region.

- The company has two key prospects within the world class Oyu Tolgoi porphyry trend, in the major Kharmagtai and Oyut Ulaan, which it continues to delineate. The company believes from exploration information to date that its licenses encompass one of the most promising copper/gold discoveries globally and that the quality is also very high by global standards. The Company's JORC resources continue to increase as exploration progresses.

- **Resource Generation** ("ResGen") is an ASX and Johannesburg listed thermal coal exploration company, in which the largest shareholder is the investment entity wholly owned by the South African Government, Public Investment Corporation. The focus of the company is on developing its Boikarabelo coal mine in the Waterberg region of South Africa.

- In October 2016 the company announced that it had selected the preferred mining contractor, having previously announced the appointment of Sedgeman for the design, procurement and construction of the coal handling and preparation plant for a fixed lump sum contract of US$141 million.

- The latest JORC statement relates only to 27% of ResGen's coal resources and 46 % of its reserves. It shows ResGen as having 3.7 billion tonnes of resources and 581 million tonnes of reserves, with measured and indicated tonnes of 995 million tonnes.

- **PT Atlas**, operating in Indonesia, and listed on the Jakarta Stock Exchange has re-organized its business into three units, Coal, Infrastructure and Energy. The company has five production hubs with combined reserves of over 300 million tonnes.

- **Baralaba (formerly Cockatoo Coal)**, returned to having an official quotation on the ASX on 22 December 2016. The company produces PCI coal used in the steel making industry and for which demand is expected to increase faster than for Hard Coking Coal over coming years.

- The company, which has marketable reserves of 33 million tonnes at its Baralaba North mine, is moving ahead to resume coal production in the second half of 2017, with an annual target of 2 million tonnes of coal being transported from Baralaba North before the South mine comes on in 2022. With the two mines in operation the company expects to export 3.5 million tonnes annually. Transportation costs are at an average cost of AUD 25 per tonne.

Working Capital

(US$ million)	31 Mar 2017	31 Dec 2016
Trade receivables	2,064	2,407
Prepayments, deposits and other receivables	804	867
Inventories	1,769	1,643
Trade and other payables and accrued liabilities	(2,711)	(3,151)
Net fair value gains on commodity contracts and derivative financial instruments	2,830	2,776
Working capital	**4,756**	**4,542**

- Working capital increased by US$214 million as at 31 March 2017 compared to 31 December 2016 due to normal course fluctuations in working capital and increased oil liquids prices since 31 December 2016.
- Readily marketable inventories ("RMI"), at US$1.7 billion at 31 March 2017, accounted for 95% of total inventory. The Group's RMI is highly liquid, primarily comprising oil liquids products. Given the highly liquid nature of these inventories, the Group believes it is appropriate to consider them together with cash equivalents when evaluating the Group's leverage.
- As of 31 March 2017, the Group's off balance sheet readily marketable inventory sales program stood at US$60 million, compared to US$129 million at 31 December 2016.

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Selected Cash Flow & Net Debt Reconciliation[1][2]

(US$ million)	Three Months Ended 31 Mar 2017
Operating loss before working capital changes	**(65)**
Increase in working capital	(223)
Others	7
Net cash flows used in operating activities[3]	**(281)**
Net cash flows used in investing activities	**(76)**
Interest paid on financing activities	(53)
Others	(2)
Net cash flows used in financing activities[4]	**(55)**
Net foreign exchange differences & others	(5)
Increase in net debt	**(417)**

(1) Full cash flow statement available in the SGX results announcement.
(2) Inclusive of amounts related to discontinuing or to be discontinued businesses and other expenses.
(3) Excludes movement in cash with futures brokers not immediately available for use.
(4) Excludes bank debt additions or repayments and net proceeds from issuance of senior notes.

- The Group's net debt increased by US$417 million during the period ended 31 March 2017 primarily driven by an increase in working capital, our reinvestment in Harbour Energy and underlying cash flow. The increase in working capital was due to normal course fluctuations and increased oil liquids prices.

- The Group recorded an operating loss during the first three months of 2017 due to the exceptional movements seen in certain markets including the dislocation and significant drop in liquidity in the energy coal markets which impacted the effectiveness of the hedges that are in place against existing and future volumes. This coupled with the Group's ongoing conservative management of liquidity weighed on profitability.

- Net cash flows used in investing activities during the period includes a re-investment in Harbour Energy, and therefore recorded a higher level than we would typically expect to see given the Group's asset light business model and the predominantly discretionary nature of its capital expenditure requirements.

- Net cash flows used in financing activities primarily relates to the interest paid on the Group's debt.

Funding and Credit Availability

(US$ million)	31 Mar 2017	31 Dec 2016
3.625% senior notes due Mar 2018	378	378
6.75% senior notes due Jan 2020	1,177	1,177
8.75% senior notes due Mar 2022	739	-
Total debt capital markets	**2,294**	**1,555**
Long term bank debt	1,193	1,194
Short term bank debt	1,353	1,293
Total debt	**4,840**	**4,042**
Cash and cash equivalents(1)	1,551	1,170
Net debt	3,289	2,872
Shareholders' equity	3,845	3,974
Net debt/Capital(2)	**46.1%**	**42.0%**
Readily marketable inventory (RMI)	1,674	1,526
Adjusted net debt / Capital(2)(3)	**29.6%**	**25.3%**

(1) Includes cash with brokers not immediately available for use
(2) Capital= net debt + shareholders' equity
(3) Adjusted for RMI

- Total cash and cash equivalents at 31 March 2017 stood at US$1.6 billion of which US$108 million was restricted with brokers and not immediately available for use.
- Net debt increased by US$417 million, primarily driven by an increase in working capital, our reinvestment in Harbour Energy and underlying cash flow. Net debt to capital was at 46%, in line with our target of maintaining net debt to capital at around 45-50%.
- At 31 March 2017, liquidity headroom, being the sum of readily available cash and unutilised committed facilities, was US$2.4 billion, having raised US$750 million in bonds in March 2017, closed a US$1 billion borrowing base facility, which is partially committed, and repaid certain outstanding loans under the Group's revolving credit facilities.
- In March 2017, the Group successfully raised US$750 million through a 5 year senior unsecured bond. The transaction generated significant demand with the final order book at US$2.4 billion across more than 200 investors and more than 3 times oversubscribed. The bond allows the Group to lengthen its maturity profile and maintain a conservative funding structure.
- As at 31 March 2017, the Group had a total of US$9.5 billion in committed and uncommitted bank facilities, comprised of US$4.1 billion in committed facilities and US$5.4 billion in uncommitted facilities. Of the close to US$10 billion in bank facilities, US$5.0 billion was utilised, which consisted of US$3.2 billion in committed facilities and US$1.8 billion in uncommitted facilities.
- The increase in committed facilities came from the closing of the US$1 billion revolving borrowing base facility in February 2017, which was established to support the businesses of Noble Clean Fuels Limited, a UK incorporated wholly owned subsidiary of Noble Group. The facility allows for the drawdown of loans as

well as the issuance of trade finance instruments, and is currently utilised largely for the issuance of letters of credit.

- The Group's uncommitted bank facilities comprise various bilateral bank credit facilities and other financing arrangements, provided by a diverse group of banks globally. The drawings under these facilities support trade finance activities such as the issuance of letters of credit and are largely self-liquidating in nature. The issuance of such letters of credit is not an incremental liability to that reported on the Group's balance sheet.