

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Three-month and Nine-month Periods Ended 30 September, 2016



(Translation)

1. Operation performance according to consolidated financial statement for the three-month period (July 1, 2016 – September 30, 2016)

Unit : Million Baht

	Quarter 3		Increase (Decrease)	%
	2016	2015		
Revenue from sale and rendering of services (excluded Fuel Cost)	1,368.21	2,025.08	(656.87)	(32.4)
Revenue from financial leases	1,107.20	1,231.23	(124.03)	(10.1)
Share of profit of associate entities and joint ventures	534.33	136.34	397.99	291.9
Other incomes	251.70	166.51	85.19	51.2
Total revenues	3,261.44	3,559.16	(297.72)	(8.4)
Cost of sale and rendering of services (excluded Fuel Cost)	1,284.73	1,318.26	(33.53)	(2.5)
Administrative expenses	359.70	374.17	(14.47)	(3.9)
Finance costs	361.62	340.43	21.19	6.2
Income tax expense	180.84	362.47	(181.63)	(50.1)
Total expenses	2,186.89	2,395.33	(208.44)	(8.7)
Profit for the period	1,074.55	1,163.83	(89.28)	(7.7)
Non-controlling Interests	23.30	22.48	0.82	3.6
Profit Attributable to Owner of the Company before exchange rate	1,097.85	1,186.31	(88.46)	(7.5)
Loss on exchange rate	(256.34)	(1,150.97)	894.63	77.7
Profit Attributable to Owner of the Company	841.51	35.34	806.17	2,281.2
Earnings per share (Baht)	0.58	0.02		
Fuel Cost	8,622.55	11,540.20		

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 3rd quarter of 2016 showed the profit of Baht 841.51 million or Baht 0.58 per share, compared to the profit of Baht 35.34 million or Baht 0.02 per share of the 3rd quarter of 2015, which showed a increase in profit of Baht 806.17 million, or 2,281.2 percent. The significant transactions were as follows:-

1.1 Revenue from Sales and Rendering of Services (excluding fuel costs)

Revenue from sale and rendering of services (excluding fuel costs of Baht 8,622.55 million) for the 3rd quarter of 2016 was Baht 1,368.21 million, decreasing by Baht 656.87 million or 32.4 percent from revenue from sale and rendering of services (excluding fuel costs of Baht 11,540.20 million) of Baht 2,025.08 million in the 3rd quarter of 2015. The main reason was the decrease in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 557.56 million due to the decrease in Base Availability Credit in 2016 comparing to 2015, as specified in the Power Purchase Agreement. In addition, revenue from operation and maintenance services of RATCH-Lao Services Company Limited, a subsidiary, decreased by Baht 42.67 million due to the transfer of its right to operate and maintain Nam Ngum 2 Hydroelectric Power Plant to Nam Ngum 2 Power Company Limited in April 2016.

1.2 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 3rd quarter of 2016 was Baht 1,107.20 million, decreasing by Baht 124.03 million from 1,231.23 million or 10.1 percent in the 3rd quarter of 2015. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

1.3 Dividend income

In the 3rd quarter of 2016, the Company had received dividend income from investment in common stock of EDL-Generation Public Company ("EDL-Gen) in the Lao Securities Exchange for the operating results of the first half year of 2016 at the amount of 130 Kip per share, totaling to Baht 94.86 million (169.78 million shares); while, in 2015, the Company had received dividend income from EDL-Gen in October at the amount of 110 Kip per share, totaling to Baht 78.93 million (165.26 million shares).

1.4 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the 3rd quarter of 2016 was Baht 534.33 million, increasing by Baht 397.99 million or 291.9 percent from Baht 136.34 million in the 3rd quarter of 2015. The main reasons were as follows:-

1.4.1 The operation result of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 246.53 million; as well as, the operation result of Phu Fai Mining Company Limited, a joint venture for coal mining and trading to HPC, in a portion of 37.5 increased in the amount of Baht 22.16 million, since Hongsa Power Plants commenced its commercial operation for 3 units on June 2, 2015, November 2, 2015, and March 2, 2016, respectively.

1.4.2 The operation result of SouthEast Asia Energy Ltd., a joint venture, in the portion of 33.33 per cent, increased in the amount of Baht 194.67 million. The main reason was, in the 3rd quarter of 2016, there was gain on exchange rate in the amount of Baht 12.13 million; whereas, in the 3rd quarter of 2015, there was loss on exchange rate in the amount of Baht 107.48 million. In addition, the higher of water level in Nam Ngum 2 Dam in the 3rd quarter of 2016, compared with that of the same period of the previous year, resulted in the increase in electricity generation.

1.4.3 The operation result of Songkhla Biomass Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 16.32 million since the power plant has commenced commercial operation on November 9, 2015.

1.4.4 The operation result of Xe-Pian Xe-Namnoy Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 51.20 million since, in the 3rd quarter of 2015, there is gain on exchange rate in the amount of Baht 65.40 million.

1.5 Income tax expense

Income tax expense in the 3rd quarter of 2016 was Baht 180.84 million, decreasing by Baht 181.63 million or 50.1 percent from Baht 362.47 million in the 3rd quarter of 2015. The main reason was, in the 3rd quarter of 2016, the decrease in tax profit of Ratchaburi Electricity Generating Company Limited decreased its tax expense in the amount of Baht 149.05 million.

1.6 Loss on exchange rate

In the 3rd quarter of 2016, the Company recorded loss on exchange rate of Baht 256.34 million. The main reason was due to the appreciation of Japanese Yen currency, compared to other currencies, resulting in the loss on exchange rate of JPY bond. In order to manage the exchange rate risk, the Company has cross currency swap contracts to Australian Dollar. However, the gain on exchange rate of such derivatives has not been recognized in the financial statements, in accordance with Thai Financial Reporting Standards. On the other hand, the main reason of loss on exchange rate, in the 3rd quarter of 2015, was the significant appreciation of US dollar currency which resulted in the extraordinary decrease of net asset value in other currencies.

2. Operation performance according to consolidated financial statement for the nine-month period (January 1, 2016 – September 30, 2016)

Unit : Million Baht

	Quarter 1-3		Increase (Decrease)	%
	2016	2015		
Revenue from sale and rendering of services (excluded Fuel Cost)	4,789.92	5,838.30	(1,048.38)	(18.0)
Revenue from financial leases	3,416.43	3,807.35	(390.92)	(10.3)
Share of profit of associate entities and joint ventures	1,770.60	696.88	1,073.72	154.1
Other incomes	670.08	675.90	(5.82)	(0.9)
Total revenues	10,647.03	11,018.43	(371.40)	(3.4)
Cost of sale and rendering of services (excluded Fuel Cost)	3,683.48	3,771.56	(88.08)	(2.3)
Administrative expenses	1,071.25	1,153.65	(82.40)	(7.1)
Finance costs	1,041.04	1,037.71	3.33	0.3
Income tax expense	707.64	1,258.10	(550.46)	(43.8)
Total expenses	6,503.41	7,221.02	(717.61)	(9.9)
Profit for the period	4,143.62	3,797.41	346.21	9.1
Non-controlling Interests	70.34	136.98	(66.64)	(48.6)
Profit Attributable to Owner of the Company before exchange rate	4,213.96	3,934.39	279.57	7.1
Loss on exchange rate	(1,012.07)	(1,591.41)	579.34	36.4
Profit Attributable to Owner of the Company	3,201.89	2,342.98	858.91	36.7
Earnings per share (Baht)	2.21	1.62		
Fuel Cost	28,635.68	34,856.93		

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the nine-month period of the year 2016 showed the profit of Baht 3,201.89 million or Baht 2.21 per share, compared to the profit of Baht 2,342.98 million or Baht 1.62 per share of the nine-month period of the year 2015, which showed an increase in profit of Baht 858.91 million, or 36.7 percent. The significant transactions were as follows:-

2.1 Revenue from Sales and Rendering of Services (excluding fuel costs)

Revenue from sale and rendering of services (excluding fuel costs of Baht 28,635.68 million) for the nine-month period of the year 2016 was Baht 4,789.92 million, decreasing by Baht 1,048.38 million or 18.0 percent from revenue from sale and rendering of services (excluding fuel costs of Baht 34,856.93 million) of Baht 5,838.30 million in the nine-month period of the year 2015. The main reason was the decrease in revenue from sale of Ratchaburi Electricity Generating Company Limited in the amount of Baht 1,119.86 million due to the decrease in Base Availability Credit in 2016 comparing to 2015, as specified in the Power Purchase Agreement.

2.2 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the nine-month period of the year 2016 was Baht 3,416.43 million, decreasing by Baht 390.92 million from 3,807.35 million or 10.3 percent in the nine-month period of the year 2015. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

2.3 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the nine-month period of the year 2016 was Baht 1,770.60 million, increasing by Baht 1,073.72 million or 154.1 percent from Baht 696.88 million in the nine-month period of the year 2015. The main reasons were as follows:-

2.3.1 The operation result of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 806.93 million; as well as, the operation result of Phu Fai Mining Company Limited, a joint venture for coal mining and trading to HPC, in a portion of 37.5 increased in the amount of Baht 64.38 million, since Hongsa Power Plants commenced its commercial operation for 3 units on June 2, 2015, November 2, 2015, and March 2, 2016, respectively.

2.3.2 The operation result of SouthEast Asia Energy Ltd., a joint venture, in the portion of 33.33 per cent, increased in the amount of Baht 238.55 million. The main reason was, in the nine-month period of the year 2016, there was gain on exchange rate in the amount of Baht 49.71 million; whereas, in the nine-month period of the year 2015, there was loss on exchange rate in the amount of Baht 136.45 million. In addition, the higher of water level in Nam Ngum 2 Dam in the nine-month period of the year 2016, compared with that of the same period of the previous year, resulted in the increase in electricity generation.

2.3.3 The operation result of Ratchaburi World Cogeneration Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 69.14 million since the power plant commenced commercial operation for 2 units on November 1, 2014 and March 1, 2015, respectively.

2.3.4 The operation result of Songkhla Biomass Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 47.73 million since the power plant commenced commercial operation on November 9, 2015.

2.3.5 The operation result of Xe-Pian Xe-Namnoy Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 49.32 million since, in the nine-month period of the year 2015, there is gain on exchange rate in the amount of Baht 87.77 million.

2.4 Income tax expense

Income tax expense in the nine-month period of the year 2016 was Baht 707.64 million, decreasing by Baht 550.46 million or 43.8 percent from Baht 1,258.10 million in the nine-month period of the year 2015. The main reason was, the decrease in tax profit of Ratchaburi Electricity Generating Company Limited decreased its tax expense in the amount of Baht 307.13 million. Also, Ratchaburi Electricity Generating Holding Public Company Limited had an adjustment of income tax expense of the previous years, resulting in the decrease in the income tax expense in the amount of Baht 39.56 million. In addition, in the nine-month period of the year 2015, RATCH-Australia Corporation Co., Ltd. adjusted income tax expense in the amount of Baht 217.69 million.

2.5 Loss on exchange rate

In the nine-month period of the year 2016, the Company recorded loss on exchange rate of Baht 1,012.07 million. The main reason was due to the appreciation of Japanese Yen currency, compared to other currencies, resulting in the loss on exchange rate of JPY bond. In order to manage the exchange rate risk, the Company has cross currency swap contracts to Australian Dollar. However, the gain on exchange rate of such derivatives has not been recognized in the financial statements, in accordance with Thai Financial Reporting Standards. On the other hand, the main reason of loss on exchange rate, in the nine-month period of the year 2015, was the significant appreciation of US dollar currency which resulted in the extraordinary decrease of net asset value in other currencies.

3. Analysis of Statements of Financial Position

3.1 Analysis of Assets

As at September 30, 2016, the total assets were Baht 91,927.39 million, decreasing by Baht 677.66 million or 0.7 percent from Baht 92,605.05 million as at December 31, 2015. The details were as follows:

(Million Baht)

	Sep 30, 2016	Dec 31, 2015	Increase (Decrease)	%
Current assets	22,865.55	25,983.50	(3,117.95)	(12.0)
Non-current assets	69,061.84	66,621.55	2,440.29	3.7
Total Assets	91,927.39	92,605.05	(677.66)	(0.7)

3.1.1 Cash and cash equivalents decreased in the amount of Baht 2,448.44 million. The details are described in no.4. In addition, current investments decreased in the amount of Baht 1,918.63 million.

3.1.2 Investments in joint ventures increased in the amount of Baht 6,429.90 million due to the additional investments in Hongsa Power Co., Ltd. during the nine-month period of the year 2016 in the total amount of Baht 6,910.07 million.

3.1.3 Financial lease receivables from related party decreased in the amount of Baht 2,389.22 million.

3.2 Analysis of Liabilities

As at September 30, 2016, total liabilities were Baht 31,834.51 million, decreasing by Baht 350.70 million or 1.1 percent from Baht 32,185.21 million as at December 31, 2015. The details were as follows:

(Million Baht)

	Sep 30, 2016	Dec 31, 2015	Increase (Decrease)	%
Current Liabilities	11,079.02	11,658.07	(579.05)	(5.0)
Non-Current Liabilities	20,755.49	20,527.14	228.35	1.1
Liabilities	31,834.51	32,185.21	(350.70)	(1.1)

3.2.1 Short-term loans from financial institutions increased in the amount of Baht 900 million due to the liquidity management during the period.

3.2.2 The Company made a long-term loan repayment during the period in the amount of Baht 1,200 million.

3.3 Analysis of Equity

As at September 30, 2016, equity was Baht 60,092.88 million, decreasing by Baht 326.96 million or 0.5 percent from Baht 60,419.84 million as at December 31, 2015. The main reasons were as follows:

3.3.1 The profit of the nine-month period of the year 2016 in the amount of Baht 3,201.89 million

3.3.2 The dividend payment during the nine-month period of the year 2016 in the amount of Baht 2.27 per share decreased retained earnings in the amount of Baht 3,291.50 million.

3.3.3 Other components of equity decreased in the amount of Baht 158.93 million. The main reason was a loss on fair value changes in investment in EDL-Generation Public Company in the amount of Baht 743.54 million. On the other hand, currency translation differences increased the equity in the amount of Baht 584.24 million.

3.3.4 Non-controlling interests decreased by Baht 78.42 million.

4. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at September 30, 2016 were Baht 5,016.09 million, decreasing by Baht 2,448.44 million from Baht 7,464.53 million on December 31, 2015. The details were summarized below:

	(Million Baht)
Net cash from operating activities	5,299.03
Net cash used in investing activities	(3,388.88)
Net cash used in financing activities	(4,693.61)
Effect of exchange rate changes on balances held in foreign currencies	335.02
Net cash increase (decrease) during the period	<u><u>(2,448.44)</u></u>

4.1 Net cash from operating activities increased cash flow in the amount of Baht 5,299.03 million. The reason was the operating result of the nine month of the year 2016 increased cash in the amount of Baht 4,066.66 million. In addition, the change in operating assets and liabilities increased cash in the amount of Baht 1,232.37 million.

4.2 Net cash used in investing activities decreased cash flow in the amount of Baht 3,388.88 million. The main reasons were as follow:-

4.2.1 In the nine month of the year 2016, the Company additionally invested in joint ventures in the total amount of Baht 7,365.91 million, especially in Hongsa Power Co., Ltd. in the total amount of Baht 6,910.07 million.

4.2.2 In the nine month of the year 2016, the Company received dividends from joint ventures, associate entities, and EDL-Generation Public Company in the total amount of Baht 2,180 million.

4.2.3 The Company received cash from current investments in the amount of Baht 1,916.38 million.

4.3 Net cash used in financing activities increased cash flow in the amount of Baht 4,693.61 million. The main reason was the dividend payment to shareholders during the nine-month of the year 2016 in the amount of Baht 3,288.49 million. Moreover, the Company made a long-term loan repayment during the period in the amount of Baht 1,200 million.

5. Significant Financial Ratios (Excluded the effect of foreign exchange rate)

Ratios		Quarter 3		
		2016	2015	
1) Current Ratio	(Times)	2.06	1.85	
2) Net Profit to Total Revenue (excluded fuel costs)	(%)	32.95	32.70	
3) Return on Equity **	(%)	8.06	7.48	
4) Return on Assets **	(%)	4.97	4.61	
5) EBITDA *	(Million Baht)	1,991	2,193	
6) EBITDA to Total Assets	(%)	2.16	2.27	
7) Debt to Equity Ratio	(Times)	0.53	0.63	
8) Debt Service Coverage Ratio	(Times)	1.12	8.87	
9) Book Value per Share	(Baht)	41.34	40.81	
* Not included the change in lease receivable		(Million Baht)	878.90	835.87

** Data for 12-month period