

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Three-month and Nine-month Periods Ended 30 September, 2013



RATCH

1. Corporate event in the 3rd quarter of 2013

On September 10, 2013, RATCH-Lao Services Company Limited, a subsidiary, has entered into Personnel Providing Service for Operation and Maintenance of Hongsa Mine Mouth Power Project Agreement with Electricity Generating Authority of Thailand. The transaction value is Baht 87 million with the period of 40 months starting from March 2014 to June 2017.

2. Operation performance according to consolidated financial statement for the three-month period (July 1, 2013 – September 30, 2013)

(Million Baht)

	Quarter 3		Increase (Decrease)	%
	2013	2012		
Revenue	13,123.10	14,342.32	(1,219.22)	(8.50)
<u>Less</u> Fuel Cost	8,494.75	9,347.41	(852.66)	(9.12)
Revenue (excluded Fuel Cost)	4,628.35	4,994.91	(366.56)	(7.34)
Cost of Sales and Expenses (excluded Fuel Cost)	2,878.62	3,050.83	(172.21)	(5.64)
	1,749.73	1,944.08	(194.35)	(10.00)
Gain from Exchange Rate	351.42	30.73	320.69	1,043.57
Profit for the period	2,101.15	1,974.81	126.34	6.40
Non-controlling Interests	21.04	27.88	(6.84)	(24.53)
Profit Attributable to Owner of the Company	2,122.19	2,002.69	119.50	5.97
Earnings per share (Baht)	1.46	1.38	0.08	5.97

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 3rd quarter of 2013 showed the profit of Baht 2,122.19 million or Baht 1.46 per share, increasing by Baht 119.50 million or 5.97 per cent, compared to the profit of Baht 2,002.69 million or Baht 1.38 per share of the 3rd quarter of 2012. The significant transactions in this period were as follows:

2.1 Revenue received from the Availability Payment ("AP")

Revenue received from the AP for the 3rd quarter of 2013 was Baht 3,494.88 million, decreasing by Baht 516.30 million or 12.87 per cent from Baht 4,011.18 million in the 3rd quarter of 2012. The main reason was Ratchaburi Electricity Generating Company Limited ("RG"), a subsidiary, shut down its power plants for planned maintenance more than in the same period of the previous year. The maintenance schedules are as follow.

<u>Ratchaburi Power Plants</u>	<u>Planned Maintenance</u>	
	<u>Quarter 3/2013</u>	<u>Quarter 3/2012</u>
Thermal Power Plant Unit 2	MO : Aug 4 - Sep 29, 2013	-
Combined Cycle Power Plant Block 1	-	MO : Sep 23 - Nov 13, 2012
Combined Cycle Power Plant Block 2	MO : Jun 2 - Jul 23, 2013	-
	MI : Jun 28 - Jul 23, 2013	

MO = Major Overhaul, MI = Minor Inspection

2.2 Cost of sales (excluded fuel costs)

Cost of sales (excluded fuel costs) for the 3rd quarter of 2013 were Baht 1,907.87 million, increasing by Baht 148.54 million or 8.44 per cent from Baht 1,759.33 million in the 3rd quarter of 2012. The main reason was the increase in operating and maintenance expenses as well as spare part expenses of RG in the amount of Baht 146.76 million since there was planned maintenance more than in the 3rd quarter of 2012, as specified in Section 2.1.

2.3 Interest income

Interest income for the 3rd quarter of 2013 were Baht 65.28 million, decreasing by Baht 117.66 million or 64.32 per cent from Baht 182.94 million in the 3rd quarter of 2012. The main reason was, in June 2012, RATCH-Australia Corporation Company Limited ("RAC"), a subsidiary in Australia, sold 14.03 per

cent of an investment in Loy Yang A Power Plant with the return of cash and Scheduled Payment Option Agreement. As a result, RAC recorded interest income from such agreement during the 3rd quarter of 2012 in the amount of Baht 87.16 million. Later on, RAC has already sold such agreement in June 2013.

2.4 Finance costs

Finance costs for the 3rd quarter of 2013 were Baht 358.39 million, decreasing by Baht 215.08 million or 37.51 per cent from Baht 573.47 million in the 3rd quarter of 2012. The main reason was the principal prepayment and the loan restructuring of RAC decreased interest expenses in the amount of Baht 185.90 million. In addition, interest expenses of RG decreased in the amount of Baht 30.05 million due to the principal repayments in every quarter.

2.5 Share of profits in jointly-controlled and associated entities

Share of profits in jointly-controlled and associated entities for the 3rd quarter of 2013 was Baht 555.20 million, increasing by Baht 183.16 million or 49.23 per cent from Baht 372.04 million in the 3rd quarter of 2012. The main reasons were as follows;

2.5.1 The operating result of jointly-controlled entities

(1) The operating result of SouthEast Asia Energy Limited, in the portion of 33.33 per cent, increased in the amount of Baht 44.62 million due to the water level in Nam Ngum 2 Dam increased which resulted in the increase in electricity generation.

(2) The operating result of Hongsa Power Company Limited, in the portion of 40 per cent, increased in the amount of Baht 199.97 million due to loss on exchange rate in the 3rd quarter of 2012 in the amount of Baht 198.08 million.

(3) The operating result of Ratchaburi Power Company Limited, in the portion of 25 per cent, decreased in the amount of Baht 59.33 million due to gain on exchange rate in the 3rd quarter of 2012 in the amount of Baht 69.41 million.

(4) The operating result of Tri Energy Company Limited in the portion of 50 per cent decreased in the amount of Baht 78.54 million since, in September 2012, Tri Energy Company Limited recognized a compensation for equipment failure from an insurance company in the amount of USD 5.5 million.

2.5.2 The commencement of commercial operation in associated entities

(1) First Korat Wind Company Limited has operated its wind farm project with the generating capacity of 103.5 Megawatts since November 2012. As a result, in the 3rd quarter of 2013, the share of profits in the portion of 20 per cent increased in the amount of Baht 31.54 million.

(2) K.R. Two Company Limited has operated its wind farm project with the generating capacity of 103.5 Megawatts since February 2013. As a result, in the 3rd quarter of 2013, the share of profits in the portion of 20 per cent increased in the amount of Baht 33.09 million.

2.6 Income tax expense

Income tax expense in the 3rd quarter of 2013 was Baht 229.29 million, decreasing by Baht 142.65 million or 38.35 per cent from Baht 371.94 million in the 3rd quarter of 2012. The main reasons were the income tax of RG decreased in the amount of Baht 150.06 million due to the decrease in profit before tax as a result of the decrease in availability payment and the increase in cost of sales, as specified in Section 1 and 2, as well as, a reduction of corporate income tax rate in the year 2013 from 23 per cent to 20 per cent.

3. Operation Performance according to consolidated financial statement for the nine-month period (January 1, 2013 – September 30, 2013)

(Million Baht)

	Quarter 1-2		Increase (Decrease)	%
	2013	2012		
Revenue	40,094.35	44,074.02	(3,979.67)	(9.03)
<u>Less Fuel Cost</u>	26,329.13	29,848.37	(3,519.24)	(11.79)
Revenue (excluded Fuel Cost)	13,765.22	14,225.65	(460.43)	(3.24)
Cost of Sales and Expenses (excluded Fuel Cost)	8,957.20	9,152.46	(195.26)	(2.13)
	4,808.02	5,073.19	(265.17)	(5.23)
Gain from Exchange Rate	415.67	231.63	184.04	79.45
Profit for the period	5,223.69	5,304.82	(81.13)	(1.53)
Non-controlling Interests	(38.75)	(282.92)	244.17	(86.30)
Profit Attributable to Owner of the Company before extraordinary items	5,184.94	5,021.90	163.04	3.25
Extraordinary items				
- Gain on termination of power purchase agreement	-	1,069.44	(1,069.44)	(100.00)
- Gain on disposal of long-term investment and long-term receivable	645.83	783.68	(137.85)	(17.59)
Profit Attributable to Owner of the Company	5,830.77	6,875.02	(1,044.25)	(15.19)
Earnings per share (Baht)	4.02	4.74	(0.72)	(15.19)

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the nine-month period of the year 2013 showed the profit of Baht 5,830.77 million or Baht 4.02 per share, decreasing by Baht 1,044.25 million or 15.19 per cent, compared to the profit of Baht 6,875.02 million or Baht 4.74 per share for the nine-month period of the year 2012. The significant transactions in this period were as follows:

3.1 Revenue received from the AP

Revenue received from the AP for the nine-month period of the year 2013 was Baht 10,923.82 million, decreasing by Baht 972.64 million or 8.18 per cent from Baht 11,896.46 million for the nine-month period of the year 2012. The main reason was, the termination of Power Purchase Agreement of Collinsville Power Station in June 2012 resulted in the decrease in the AP of RAC in the amount of Baht 888.44 million.

In addition, the AP of Ratchaburi power plants decreased in the amount of Baht 84.20 million. The main reason was the power plants were shut down for planned maintenance more than in the same period of the previous year.

3.2 Gain on termination of power purchase agreement

In June 2012, RAC received an offer to terminate the Collinsville Power Station Power Purchase Agreement. As a result, RAC received the compensation fee and recognized gain on termination of power purchase agreement in the amount of Baht 1,069.44 million.

3.3 Gain on disposal of long-term investment and long-term receivable

In June 2012, RAC sold 14.03 per cent of the investment in Loy Yang A Power Plant and recorded gain on disposal of long-term investment in the amount of Baht 783.68 million, comprising cash and Scheduled Payment Option Agreement. In June 2013, RAC sold such agreement and recognized gain on sale long-term receivable in the amount of Baht 645.83 million.

3.4 Other incomes

Other incomes for the nine-month period of the year 2013 were Baht 344.81 million, increasing by Baht 225.78 million or 189.68 per cent from Baht 119.03 million for the nine-month period of the year 2012. The main reason was, RAC received a compensation for pollution reduction from Australian government and coal compensation after the termination of Collinsville Power Station Power Purchase Agreement in the total amount of Baht 231.04 million.

3.5 Finance costs

Finance costs for the nine-month period of the year 2013 were Baht 1,245.63 million, decreasing by Baht 592.81 million or 32.25 per cent from Baht 1,838.44 million in the nine-month period of the year 2012. The main reason was, loan prepayment and the restructuring of RAC's loan decreased interest expenses in the total amount of Baht 506.51 million. Additionally, the interest expenses of RG decreased in the amount of Baht 89.17 million due to principal repayments.

3.6 Share of profits in jointly-controlled and associated entities

Share of profits in jointly-controlled and associated entities for the nine-month period of 2013 was Baht 909.41 million, increasing by Baht 175.53 million or 23.92 per cent from Baht 733.88 million in the nine-month period of the year 2012. The main reasons were as follows;

3.6.1 Increasing/decreasing the operating result jointly-controlled entities

(1) The operating result of SouthEast Asia Energy Limited, in the portion of 33.33 per cent, increased in the amount of Baht 58.80 million due to the water level in Nam Ngum 2 Dam increased which resulted in the increase in electricity generation.

(2) The operating result of Hongsa Power Company Limited, in the portion of 40 per cent, decreased in the amount of Baht 68.60 million. The main reason was the increase in administrative expenses and finance costs in the total amount of Baht 71.60 million since the project is under construction which is expected to begin the commercial operation date in 2015.

3.6.2 The commencement of commercial operation in jointly-controlled and associated entities

(1) Solarta Company Limited, a jointly-control entity, has fully operated its 8 solar farms with the total generating capacity of 34.25 Megawatts since November 2012. As a result, the share of profits for the nine-month period of 2013 in the portion of 49 per cent increased in the amount of Baht 80.72 million in this period.

(2) First Korat Wind Company Limited, an associated entity, has operated its wind farm project with the generating capacity of 103.5 Megawatts since November 2012. As a result, the share of profits for the nine-month period of 2013 in the portion of 20 per cent increased in the amount of Baht 73.11 million.

(3) K.R. Two Company Limited, an associated entity, has operated its wind farm project with the generating capacity of 103.5 Megawatts since February 2013. As a result, the share of profits for the nine-month period of 2013 in the portion of 20 per cent increased in the amount of Baht 44.99 million.

3.7 Income tax expense

Income tax expense for the nine-month period of the year 2013 was Baht 1,159.41 million, increasing by Baht 422.62 million or 57.36 per cent from Baht 736.79 million for the nine-month period of the year 2012. Deferred tax assets of RAC decreased in the amount of Baht 649.94 million. Meanwhile, Income tax expense of RG decreased in the amount of Baht 218.06 million due to a reduction of corporate income tax rate from 23 per cent in 2012 to 20 per cent in 2013.

4. Analysis of Statements of Financial Position

4.1 Analysis of Assets

As at September 30, 2013, the total assets were Baht 89,016.88 million, decreasing by Baht 7,793.88 million or 8.05 per cent from Baht 96,810.76 million as at December 31, 2012. The details were as follows;

(Million Baht)

	Sep 30, 2013	Dec 31, 2012	Increase (Decrease)	%
Current assets	19,713.54	21,034.58	(1,321.04)	(6.28)
Non-current assets	69,303.34	75,776.18	(6,472.84)	(8.54)
Total Assets	89,016.88	96,810.76	(7,793.88)	(8.05)

4.1.1 Property, plant, and equipment decreased by Baht 3,602.58 million due to the depreciation during the period in the amount of Baht 2,574.80 million as well as the depreciation of Australian Dollar, resulting in the decrease in property, plant, and equipment of RAC in the amount of Baht 1,233.28 million.

4.1.2 Other receivable from disposal of investment decreased by Baht 3,349.09 million since RAC sold Scheduled Payment Option Agreement in June 2013, as specified in section 3.3.

4.1.3 Trade account receivable from related party increased by Baht 4,934.40 million. The main reason was trade account receivable of RG as at September 30, 2013 increased in the amount of Baht 4,938.58 million since the receivable consisted of the electricity sale in August and September 2013 whereas the receivable in December 2012 consisted of the electricity sale in the December 2012 only.

4.1.4 Cash and cash equivalents as well as current investments decreased in the amount of Baht 6,442.73 million.

4.2 Analysis of Liabilities and Equity

As at September 30, 2013, total liabilities and equity were Baht 89,016.88 million, decreasing by Baht 7,793.88 million or 8.05 per cent from Baht 96,810.76 million as at December 31, 2012. The details were as follows;

	(Million Baht)			
	Sep 30, 2013	Dec 31, 2012	Increase (Decrease)	%
Liabilities	33,081.54	43,079.11	(9,997.57)	(23.21)
Equity	55,935.34	53,731.65	2,203.69	4.10
Liabilities and Equity	89,016.88	96,810.76	(7,793.88)	(8.05)

4.2.1 Liabilities were Baht 33,081.54 million, decreasing by Baht 9,997.57 million from Baht 43,079.11 million in the year 2012. The main reasons were as follows;

(1) RG made a repayment of loan from a financial institution and debenture during the period in the total amount of Baht 3,433.10 million.

(2) The prepayment and restructuring of RAC's loan decreased loans from financial institutes in the amount of Baht 5,183.91 million.

(3) Trade accounts payable of RG decreased in the amount of baht 366.66 million. The main reason was, RG generated electricity in August and September 2013 less than in November and December 2012, resulting in the decrease in fuel consumption.

(4) The depreciation of Japanese Yen resulted in the decrease in the value of Yen 15,000 million debenture of RH International (Singapore) Corporation PTE. Ltd. ("RHIS"), a subsidiary, in the amount of Baht 522.41 million.

4.2.2 Equity increased by Baht 2,203.69 million. The main reasons were as follows:

(1) The profit of the nine-month period of the year 2013 in the amount of Baht 5,830.77 million.

(2) The dividend payment announcement during the nine-month period of the year 2013 in the amount of Baht 2.27 per share decreased retained earnings in the amount of Baht 3,291.50 million.

5. Analysis of Cash Flows

(Million Baht)

	Quarter 1-3		Increase (Decrease)
	2013	2012	
Net cash from operating activities	1,783.27	2,323.85	(540.58)
Net cash from investing activities	7,850.11	1,910.25	5,939.86
Net cash (used in) financing activities	(12,727.01)	(6,886.75)	(5,840.26)
	(3,093.63)	(2,652.65)	(440.98)
Effect of exchange rate on balances held on foreign currencies	(10.29)	(7.37)	(2.92)
Cash and cash equivalents at beginning of period	8,260.58	10,698.63	(2,438.05)
Cash and cash equivalents at end of period	5,156.66	8,038.61	(2,881.95)

Cash and cash equivalents of the Company and its subsidiaries as at September 30, 2013 were Baht 5,156.66 million, decreasing by Baht 2,881.95 million from Baht 8,038.61 million on September 30, 2012. The details were summarized below:

5.1 The decrease in net cash from operating activities decreased cash flow in the amount of Baht 540.58 million. The reason was the operating result during the period decreased cash in the amount of Baht 793.91 million. While, the changes in operating assets and liabilities increased cash in the amount of Baht 253.33 million.

5.2 The increase in net cash from investing activities increased cash flow in the amount of Baht 5,939.86 million. The main reasons were as follows;

(1) During the nine-month period of the year 2013, RAC received cash from the sale of long-term receivable in the amount of Baht 3,518.06 million. (as specified in section 3.3)

(2) During the nine-month period of the previous year, RHIS made a partial repayment of RAC's long-term loan and transferred such loan from Transfield Services Limited, a related party, in the amount of AUD 86.20 million (equivalent to Baht 2,781.92 million).

5.3 The increase in net cash used in financing activities decreased cash flow in the amount of Baht 5,840.26 million. The main reasons were as follows;

(1) During the nine-month period of the year 2013, RG made repayments for bills of exchange payables and loans from financial institutes increasing by Baht 1,874.70 million.

(2) During the nine-month period of the year 2013, the loan prepayment and the restructuring of RAC's loan decreased loans from financial institutes of RAC and RHIS in the total amount of Baht 4,231.26 million.

6. Significant Financial Ratios of Quarter 3

Ratios		Quarter 3	
		2013	2012
1) Current Ratio	(Times)	0.92	1.70
2) Net Profit Ratio	(%)	16.01	13.77
3) Return on Equity*	(%)	12.49	14.91
4) Return on Assets*	(%)	7.12	7.74
5) EBITDA	(Million Baht)	3,264	3,830
6) EBITDA to Total Assets*	(%)	12.98	13.04
7) Debt to Equity Ratio	(Times)	0.59	0.86
8) Debt Service Coverage Ratio	(Times)	0.71	2.32
9) Book Value per Share	(Baht)	38.06	35.74
10) Earning per Share	(Baht)	1.46	1.38

* Data for 12-month period