

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Year Ended 31 December, 2013



RATCH

1. Significant events of the year 2013

1.1 Power Purchase Agreement and financial agreements of Xe-Pian Xe-Namnoy Hydroelectric Power Plant Project

On February 6, 2013, Xe-Pian Xe-Namnoy Power Company Limited ("PNPC"), has entered into Power Purchase Agreement with Electricity Generating Authority of Thailand ("EGAT"), specifying the agreement term of 27 years after the Commercial Operation Date, which is expected to be in 2018.

On November 28, 2013, PNPC has entered into financial agreements of the total amount of USD 714 million or approximately Baht 22,134 million with 4 Thai financial institutes. The agreement is effective for 20 years since the signing date and the debt to equity ratio of the project is 70:30.

1.2 The disposal of shares of Sukhothai Energy Company Limited

On January 23, 2013, Ratchaburi Energy Company Limited, a subsidiary, has sold its 208,000 shares in Sukhothai Energy Company Limited in a portion of 26 per cent at Baht 100 per share, totaling Million Baht 20.80 to the former shareholder of such company. As a result, the portion of investment decreased from 51 per cent to 25 per cent.

2. Operation Performance according to consolidated financial statement

(Million Baht)

| | 2013 | 2012 | Increase (Decrease) | % |
|--|-----------------|-----------------|------------------------|----------------|
| Revenue | 52,847.96 | 57,360.23 | (4,512.27) | (7.87) |
| <u>Less Fuel Cost</u> | 36,026.82 | 39,773.80 | (3,746.98) | (9.42) |
| Revenue (excluded Fuel Cost) | 16,821.14 | 17,586.43 | (765.29) | (4.35) |
| Cost of Sales and Expenses (excluded Fuel Cost) | 11,989.45 | 12,301.02 | (311.57) | (2.53) |
| | 4,831.69 | 5,285.41 | (453.72) | (8.58) |
| Gain from Exchange Rate | 704.11 | 798.05 | (93.94) | (11.77) |
| Profit for the period | 5,535.80 | 6,083.46 | (547.66) | (9.00) |
| Non-controlling Interests | 5.22 | (210.31) | 215.53 | (102.48) |
| Profit Attributable to Owner of the Company before extraordinary items | 5,541.02 | 5,873.15 | (332.13) | (5.66) |
| 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 | 6,186.85 | 7,726.27 | (1,539.42) | (19.92) |
| Earnings per share (Baht) | 4.27 | 5.33 | (1.06) | (19.92) |

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the year 2013 showed the profit of Baht 6,186.85 million or Baht 4.27 per share, decreasing by Baht 1,539.42 million or 19.92 per cent, compared to the profit of Baht 7,726.27 million or Baht 5.33 per share of the year 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 year 2013 was Baht 13,492.29 million, decreasing by Baht 1,155.65 million or 7.89 per cent from Baht 14,647.94 million in the year 2012. The main reasons were, in June 2012, RATCH-Australia Corporation Company Limited ("RAC"), a subsidiary in Australia, terminated Power Purchase Agreement of Collinsville Power Station as well as Australian Dollar depreciated comparing to the previous year, resulting in the decrease in the AP of RAC in the total amount of Baht 984.25 million. In addition, the revenue received from AP of Ratchaburi Electricity Generating Company Limited

("RG"), a subsidiary, decreased in the amount of Baht 171.40 million since there were shutdowns for planned maintenance more than in the previous year. The maintenance schedules are as follows:

| <u>Ratchaburi Power Plants</u> | <u>Planned Maintenance</u> | |
|------------------------------------|----------------------------|----------------------------|
| | <u>2013</u> | <u>2012</u> |
| Thermal Power Plant Unit 1 | MO : Oct 27 - Dec 22, 2013 | - |
| Thermal Power Plant Unit 2 | MO : Aug 4 - Sep 29, 2013 | - |
| Combined Cycle Power Plant Block 1 | MI : Jan 2 - Jan 27, 2013 | MO : Sep 23 - Nov 13, 2012 |
| | CI : Jan 13 - Jan 27, 2013 | |
| Combined Cycle Power Plant Block 2 | MO : Jun 2 - Jul 23, 2013 | CI : Dec 2 - Dec 11, 2012 |
| | MI : Jun 28 - Jul 23, 2013 | |
| Combined Cycle Power Plant Block 3 | MI : Feb 3 - Feb 28, 2013 | CI : Jan 1 - Jan 10, 2012 |
| | CI : Feb 14 - Feb 28, 2013 | |

MO = Major Overhaul, MI = Minor Inspection, CI = Combustion Inspection

2.2 Cost of sales (excluded fuel costs)

Cost of sales (excluded fuel costs) for the year 2013 were Baht 7,300.43 million, decreasing by Baht 195.27 million or 2.61 per cent from Baht 7,495.70 million in the year 2012. The main reasons were the termination of Power Purchase Agreement of Collinsville Power Station and the depreciation of Australian Dollar, as specified in Section 1, decreased the cost of sales of RAC in the amount of Baht 506.87 million. On the other hand, the operating and maintenance expenses as well as spare part expenses of RG increased in the amount of Baht 162.45 million and Baht 191.85 million, respectively, since there were shutdowns for planned maintenance more than in the previous year. (as specified in Section 2.1)

2.3 Gain on termination of power purchase agreement

In June 2012, with the acceptance of an offer to terminate the Collinsville Power Station Power Purchase Agreement, RAC recorded a compensation fee in total amount of AUD 99.57 million (equivalent to Baht 3,202.57 million) and recorded expenses relating to the termination in the amount of Baht 2,133.13 million. As a result, RAC recognized gain on the termination in the amount of Baht 1,069.44 million.

2.4 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 AUD 20 million cash and Scheduled Payment Option Agreement. In June 2013, RAC sold such agreement together with Scheduled Payment Deed Interest to 4 assignees at the purchase price of AUD 120.96 million (equivalent to Baht 3,518.06 million) and recognized gain on sale of long-term receivable in the amount of AUD 22.21 million (equivalent to Baht 645.83 million).

2.5 Other income

Other income for the year 2013 was Baht 407.57 million, increasing by Baht 180.72 million or 79.66 per cent from Baht 226.85 million in the year 2012. The main reason was RAC and RG recorded insurance compensations for equipment failures from insurance companies in the amount of Baht 67.83 million and Baht 11.58 million, respectively. In addition, RAC recorded a compensation for pollution reduction from Australian government and coal compensation after the termination of Collinsville Power Station Power Purchase Agreement increasing in the total amount of Baht 54.04 million.

2.6 Administrative expenses

Administrative expenses for the year 2013 were Baht 1,761.90 million, increasing by Baht 243.83 million or 16.06 per cent from Baht 1,518.07 million in the year 2012. The main reason was the development cost of Nam Ngum 3 Hydro Power Plant Project was written off in the amount of Baht 315 million due to the cancellation of project development contract by Lao PDR government. In addition, the development cost of Koh Kong Power Plant Project was written off in the total amount of Baht 29.14 million.

2.7 Finance costs

Finance costs for the year 2013 were Baht 1,633.39 million, decreasing by Baht 766.63 million or 31.94 per cent from Baht 2,400.02 million in the year 2012. The main reasons were the principal prepayment and the loan restructuring of RAC as well as the depreciation of Australian Dollar comparing to the previous year decreased interest expenses of RAC in the amount of Baht 639.41 million. In addition, interest expenses of RG decreased in the amount of Baht 125.46 million due to the quarterly principal repayments.

2.8 Share of profits in jointly-controlled and associated entities

Share of profits in jointly-controlled and associated entities for the year 2013 was Baht 958.47 million, increasing by Baht 207.87 million or 27.69 per cent from Baht 750.60 million in the year 2012. The main reason was the commencement of commercial operation in jointly-controlled and associated entities, as follows;

(1) Solarta Company Limited, a jointly-controlled 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 of the year 2013 in the portion of 49 per cent increased in the amount of Baht 84.14 million.

(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 of the year 2013 in the portion of 20 per cent increased in the amount of Baht 128.65 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 of the year 2013 in the portion of 20 per cent increased in the amount of Baht 101.47 million.

2.9 Income tax expense

Income tax expense in the year 2013 was Baht 1,293.73 million, increasing by Baht 406.49 million or 45.82 per cent from Baht 887.24 million in the year 2012. The main reason was, in the year 2012, RAC recorded deferred tax assets in the amount of Baht 647.40 million. On the other hand, the income tax of RG decreased in the amount of Baht 257.42 million due to the decrease in the profit before tax, as well as, a reduction of corporate income tax rate in the year 2013 from 23 per cent to 20 per cent.

3. Analysis of Statements of Financial Position

3.1 Analysis of Assets

As at December 31, 2013, the total assets were Baht 88,903.25 million, decreasing by Baht 7,907.51 million or 8.17 per cent from Baht 96,810.76 million as at December 31, 2012. The details were as follows;

(Million Baht)

| | Dec 31, 2013 | Dec 31, 2012 | Increase (Decrease) | % |
|---------------------|------------------|------------------|------------------------|---------------|
| Current assets | 20,899.69 | 21,034.58 | (134.89) | (0.64) |
| Non-current assets | 68,003.56 | 75,776.18 | (7,772.62) | (10.26) |
| Total Assets | 88,903.25 | 96,810.76 | (7,907.51) | (8.17) |

3.1.1 Property, plant, and equipment decreased by Baht 4,382.06 million due to the depreciation during the period in the amount of Baht 3,416.41 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 1,295.24 million.

3.1.2 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 2.4)

3.1.3 Trade account receivable from related party increased by Baht 4,513.87 million. The main reason was trade account receivable of RG as at December 31, 2013 increased in the amount of Baht 4,506.29 million since the receivable consisted of the electricity sale in November and December 2013 whereas the receivable in December 2012 consisted of the electricity sale in the December 2012 only.

3.1.4 Cash and cash equivalents as well as current investments decreased in the amount of Baht 4,527.76 million.

3.2 Analysis of Liabilities and Equity

As at December 31, 2013, total liabilities and equity were Baht 88,903.25 million, decreasing by Baht 7,907.51 million or 8.17 per cent from Baht 96,810.76 million as at December 31, 2012. The details were as follows;

| | (Million Baht) | | | |
|-------------------------------|------------------|------------------|------------------------|---------------|
| | Dec 31, 2013 | Dec 31, 2012 | Increase (Decrease) | % |
| Liabilities | 33,364.39 | 43,079.11 | (9,714.72) | (22.55) |
| Equity | 55,538.86 | 53,731.65 | 1,807.21 | 3.36 |
| Liabilities and Equity | 88,903.25 | 96,810.76 | (7,907.51) | (8.17) |

3.2.1 Liabilities decreased by Baht 9,714.72 million. The main reasons were as follows:

(1) RG made a repayment of short-term loan from a financial institution and debenture during the period in the total amount of Baht 3,589.90 million.

(2) The prepayment and restructuring loans of RAC and RH International (Singapore) Corporation PTE. Ltd. ("RHIS"), a subsidiary in Singapore, decreased loans from financial institutes in the amount of Baht 4,953.97 million.

(3) The depreciation of Japanese Yen resulted in the decrease in the value of Yen 15,000 million debenture of RHIS in the amount of Baht 628.14 million.

3.2.2 Equity increased by Baht 1,807.21 million. The main reasons were as follows:

(1) The profit of the year 2013 in the amount of Baht 6,186.85 million.

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

(3) Other components of equity decreased in the amount of Baht 1,160.36 million. The main reason was currency translation differences decreased the equity in the amount of Baht 1,436.52 million. On the other hand, there was a gain on fair value changes in available-for-sale investment in the amount of Baht 176.72 million.

4. Analysis of Cash Flows

| | (Million Baht) | | |
|--|-----------------|-----------------|------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Net cash from operating activities | 4,468.62 | 9,601.15 | (5,132.53) |
| Net cash from (used in) investing activities | 8,277.63 | (2,788.40) | 11,066.03 |
| Net cash (used in) financing activities | (13,185.41) | (9,226.51) | (3,958.90) |
| | (439.16) | (2,413.76) | 1,974.60 |
| Effect of exchange rate on balances held on foreign currencies | (383.64) | (24.29) | (359.35) |
| 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 | 7,437.78 | 8,260.58 | (822.80) |

Cash and cash equivalents of the Company and its subsidiaries as at December 31, 2013 were Baht 7,437.78 million, decreasing by Baht 822.80 million from Baht 8,260.58 million on December 31, 2012. The details were summarized below:

4.1 The decrease in net cash from operating activities decreased cash flow in the amount of Baht 5,132.53 million. The reason was the operating result during the year decreased cash in the amount of Baht 380.14 million. In addition, the changes in operating assets and liabilities decreased cash in the amount of Baht 4,752.39 million. The main reason was trade account receivable of RG increased for 1 period. (as specified in section 3.1.3)

4.2 The increase in net cash from investing activities increased cash flow in the amount of Baht 11,066.03 million. The main reasons were as follows;

(1) During the year 2013, cash received from current investments increased from the year 2012 in the amount of Baht 6,561.29 million.

(2) During 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 2.4)

4.3 The increase in net cash used in financing activities decreased cash flow in the amount of Baht 3,958.90 million. The main reasons were as follows;

(1) During the year 2013, the loan prepayment and the restructuring of the loan of RAC and RHIS decreased loans from financial institutes in the net amount of Baht 4,953.97 million.

(2) During the year 2013, finance costs paid from RG, RHIS, and RAC decreased in the amount of Baht 544.45 million.

5. Significant Financial Ratios

| Ratios | | 2013 | 2012 |
|--------------------------------|----------------|--------|--------|
| 1) Current Ratio | (Times) | 0.91 | 1.38 |
| 2) Net Profit Ratio | (%) | 11.56 | 13.40 |
| 3) Return on Equity | (%) | 11.49 | 15.32 |
| 4) Return on Total Assets | (%) | 6.66 | 8.18 |
| 5) EBITDA | (Million Baht) | 12,879 | 15,118 |
| 6) EBITDA to Total Assets | (%) | 13.87 | 15.57 |
| 7) Debt to Equity Ratio | (Times) | 0.60 | 0.80 |
| 8) Debt Service Coverage Ratio | (Times) | 1.16 | 1.73 |
| 9) Book Value per Share | (Baht) | 37.72 | 36.53 |
| 10) Earning per Share | (Baht) | 4.27 | 5.33 |