

# **Ratchaburi Electricity Generating Holding PCL**

## **Management Discussion and Analysis**

**For the Three-month and Six-month Periods Ended 30 June, 2015**



(Translation)

### **1. Significant events of the 2<sup>nd</sup> quarter of 2015**

On June 2, 2015, Hongsa Thermal Power Project, held 40 per cent stake by the Company, has commenced commercial operation of the unit 1 of its power plant as scheduled. The project is located in Lao People's Democratic Republic, which an installed capacity of 1,878 megawatts or 751.20 megawatts of which is the Company's attribution.

The commercial operation of the unit 2 and unit 3 will commence in November 2015 and March 2016, respectively.

## 2. Operation performance according to consolidated financial statement for the three-month period (April 1, 2015 – June 30, 2015)

(Million Baht)

	Quarter 2		Increase (Decrease)	%
	2015	2014		
Revenue	14,744.33	14,314.12	430.21	3.0
<u>Less</u> Fuel Cost	10,930.35	9,952.60	977.75	9.8
Revenue (excluded Fuel Cost)	3,813.98	4,361.52	(547.54)	(12.6)
Cost of Sales and Expenses (excluded Fuel Cost)	2,537.42	2,397.40	140.02	5.8
	1,276.56	1,964.12	(687.56)	(35.0)
(Loss) from Exchange Rate	(207.44)	(98.35)	(109.09)	110.9
Profit for the period	1,069.12	1,865.77	(796.65)	(42.7)
Non-controlling Interests	75.60	(18.07)	93.67	(518.4)
<b>Profit Attributable to Owner of the Company</b>	<b>1,144.72</b>	<b>1,847.70</b>	<b>(702.98)</b>	<b>(38.1)</b>
Earnings per share (Baht)	0.79	1.27	(0.48)	(38.1)

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 2<sup>nd</sup> quarter of 2015 showed the profit of Baht 1,144.72 million or Baht 0.79 per share, decreasing by Baht 702.98 million or 38.1 per cent, compared to the profit of Baht 1,847.70 million or Baht 1.27 per share of the 2<sup>nd</sup> quarter of 2014. The significant transactions were as follows:-

### 2.1 Other income decreased at Baht 395.39 million

Other income for the 2<sup>nd</sup> quarter of 2015 was Baht 15.70 million, decreasing by Baht 395.39 million or 96.2 per cent from Baht 411.09 million in the 2<sup>nd</sup> quarter of 2014. The main reason was, in the 2<sup>nd</sup> quarter of 2014, the reversal of deferred consideration payable for project development of RATCH-Australia Corporation Co., Ltd., a subsidiary in Australia, in the amount of Baht 306.06 million since the counterparty had failed to meet investment criteria in the agreement. In addition, in the 2<sup>nd</sup> quarter of 2014, Ratchaburi power plants and Tri Energy power plant recorded compensation for business interruption and equipment failure in the total amount of Baht 71.53 million.

## 2.2 Share of profits of associate entities and joint ventures increased at Baht 87.67 million

Share of profits of associate entities and joint ventures for the 2<sup>nd</sup> quarter of 2015 was Baht 362.36 million, increasing by Baht 87.67 million or 31.9 per cent from Baht 274.69 million in the 2<sup>nd</sup> quarter of 2014. The main reasons were as follows:-

2.2.1 The share of profit in Ratchaburi World Cogeneration Co., Ltd., a joint venture, in the portion of 40 per cent, increased in the amount of Baht 58.17 million since its power plants have commenced commercial operation for all 2 units on November 1, 2014 and March 1, 2015, respectively.

2.2.2 The shares of profit in First Korat Wind Co., Ltd. and K.R. TWO Co., Ltd., associated entities, in the portion of 20 per cent, increased in the amount of Baht 14.28 million and Baht 13.44 million, respectively. The main reason was, the wind-turbine power plants generated more electricity than in the same period of the previous year.

## 2.3 Income tax expense increased at Baht 231.84 million

Income tax expense in the 2<sup>nd</sup> quarter of 2015 was Baht 546.81 million, increasing by Baht 231.84 million or 73.6 per cent from Baht 314.98 million in the 2<sup>nd</sup> quarter of 2014. The main reason was the adjustment of income tax of RATCH-Australia Corporation Co., Ltd., a subsidiary in Australia.

### 3. Operation performance according to consolidated financial statement for the six-month period (January 1, 2015 – June 30, 2015)

(Million Baht)

	Quarter 1-2		Increase (Decrease)	%
	2015	2014		
Revenue	30,775.99	26,218.96	4,557.03	17.4
<u>Less</u> Fuel Cost	23,316.72	18,035.30	5,281.42	29.3
Revenue (excluded Fuel Cost)	7,459.27	8,183.66	(724.39)	(8.9)
Cost of Sales and Expenses (excluded Fuel Cost)	4,825.70	4,586.71	238.99	5.2
	2,633.57	3,596.95	(963.38)	(26.8)
(Loss) from Exchange Rate	(440.43)	(192.22)	(248.21)	129.1
Profit for the period	2,193.14	3,404.73	(1,211.59)	(35.6)
Non-controlling Interests	114.50	11.17	103.33	925.1
Profit Attributable to Owner of the Company before extraordinary items	2,307.64	3,415.90	(1,108.26)	(32.4)
Extraordinary items				
- Gain on bargain purchase the shares of TECO	-	797.29	(797.29)	-
<b>Profit Attributable to Owner of the Company</b>	<b>2,307.64</b>	<b>4,213.19</b>	<b>(1,905.55)</b>	<b>(45.2)</b>
Earnings per share (Baht)	1.59	2.91	(1.31)	(45.2)

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the first six-month period of the year 2015 showed the profit of Baht 2,307.64 million or Baht 1.59 per share, decreasing by Baht 1,905.55 million or 45.2 per cent, compared to the profit of Baht 4,213.19 million or Baht 2.91 per share of the first six-month period of the year 2014. The significant transactions were as follows:-

#### 3.1 Gain on bargain purchase the shares of Tri Energy Co., Ltd. in the year 2014 in the amount of Baht 797.29 million

On January 28, 2014, Ratchaburi Gas Co., Ltd., a subsidiary which completed a liquidation process on August 28, 2014, acquired an additional 49.99 per cent of the common shares of Tri Energy Co., Ltd. (“TECO”), at USD 21.32 million or equivalent to Baht 703.43 million. As a result, the percentage held of TECO increased from 50 per cent to 99.99 per cent of the issued and paid up capital. The Company recognized gain on bargain purchase from such acquisition at Baht 797.29 million.

### **3.2 Other income decreased at Baht 598.64 million**

Other income for the first six-month period of the year 2015 was Baht 69.39 million, decreasing by Baht 598.64 million or 89.6 per cent from Baht 668.03 million in the first six-month period of the year 2014. The main reason was, in the first six-month period of the year 2014, there was a reversal of deferred consideration payable for project development of RATCH-Australia Corporation Co., Ltd., a subsidiary in Australia, in the amount of Baht 306.06 million since the counterparty had failed to meet investment criteria in the agreement. In addition, in the first six-month period of the year 2014, Ratchaburi power plants and Tri Energy power plant had recorded compensation for business interruption and equipment failure in the total amount of Baht 289.69 million.

### **3.3 Share of profits of associated entities and joint ventures decreased at Baht 130.08 million**

Share of profits of associated entities and joint ventures for the first six-month period of the year 2015 was Baht 560.54 million, decreasing by Baht 130.08 million or 18.8 per cent from Baht 690.62 million in the first six-month period of the year 2014. The main reasons were as follows:-

3.3.1 The share of loss in Hongsa Power Co., Ltd., a joint venture, in the portion of 40 per cent, decreased in the amount of Baht 174.89 million. The main reason was from loss on exchange rate, which decreased the operating result in the amount of Baht 166.52 million.

Hongsa Power Plant has commenced commercial operation of the Unit 1 of its power plant since June 2, 2015 and are planned to start commercial operation for the Unit 2 and Unit 3 in November 2015 and March 2016, respectively.

3.3.2 The share of profit in Ratchaburi World Cogeneration Co., Ltd., a joint venture, in the portion of 40 per cent, increased in the amount of Baht 62.90 million since its power plants have commenced commercial operation for all 2 units on November 1, 2014 and March 1, 2015, respectively.

### **3.4 Revenue from sale and rendering of services (excluded fuel costs) increased at Baht 258.93 million**

Revenue from sale and rendering of services (excluded fuel costs at Baht 23,316.72 million) for the first six-month period of the year 2015 was Baht 3,813.23 million, increasing by Baht 258.93 million or 7.3 per cent from revenue from sale and rendering of services (excluded fuel costs at Baht 18,035.30 million) Baht 3,554.30 million in the first six-month period of the year 2014. The main reason was the revenue from sale of

Ratchaburi Power Plants, which increased in the amount of Baht 404.55 million. This resulted from the increase in Base Availability Credit in 2015 comparing to 2014, as specified in Power Purchase Agreement.

### **3.5 Income tax expense increased at Baht 311.68 million**

Income tax expense in the first six-month period of the year 2015 was Baht 895.62 million, increasing by Baht 311.68 million or 53.4 per cent from Baht 583.94 million in the first six-month period of the year 2014. The main reason was the adjustment of income tax of RATCH-Australia Corporation Co., Ltd., a subsidiary in Australia.

## 4. Analysis of Statements of Financial Position

### 4.1 Analysis of Assets

As at June 30, 2015, the total assets were Baht 97,719.19 million, increasing by Baht 1,484.15 million or 1.5 per cent from Baht 96,235.04 million as at December 31, 2014. The details were as follows:

(Million Baht)

	Jun 30, 2015	Dec 31, 2014	Increase (Decrease)	%
Current assets	34,318.41	31,407.68	2,910.73	9.3
Non-current assets	63,400.78	64,827.36	(1,426.58)	(2.2)
<b>Total Assets</b>	<b>97,719.19</b>	<b>96,235.04</b>	<b>1,484.15</b>	<b>1.5</b>

4.1.1 As at June 30, 2015, current assets were Baht 34,318.41 million, increasing by Baht 2,910.73 million from Baht 31,407.68 million as at December 31, 2014. The main reason was from the increase in cash and cash equivalents, as well as current investments; totaled to the amount of Baht 3,145.43 million from the operating performance of the Company during the first six-month period of the year 2015. In addition, there was an issuance of a Baht 2,000 million debentures by Ratchaburi Electricity Generating Co., Ltd., for working capital purpose; with 7 years of repayment and 3.5 per cent interest rate in March 2015.

4.1.2 As at June 30, 2015, non-current assets were Baht 63,400.78 million, decreasing by Baht 1,426.58 million from Baht 64,827.36 million as at December 31, 2014. The main reason was finance lease receivable from related party decreased in the amount of Baht 1,539.91 million.



## 4.2 Analysis of Liabilities

As at June 30, 2015, total liabilities were Baht 36,317.93 million, increasing by Baht 1,282.29 million or 3.7 per cent from Baht 35,035.64 million as at December 31, 2014. The details were as follows:

	(Million Baht)		
	Jun 30, 2015	Dec 31, 2014	Increase (Decrease) %
Current Liabilities	15,663.06	16,049.97	(386.91) (2.4)
Non-Current Liabilities	20,654.87	18,985.67	1,669.20 8.8
<b>Liabilities</b>	<b>36,317.93</b>	<b>35,035.64</b>	<b>1,282.29</b> <b>3.7</b>

4.2.1 As at June 30, 2015, current liabilities were Baht 15,663.06 million, decreasing by Baht 386.91 million from Baht 16,049.97 million as at December 31, 2014. The main reason was trade accounts payable of Ratchaburi Electricity Generating Co., Ltd. decreased in the amount of baht 786.32 million due to the fact that in May and June 2015, Ratchaburi Plants had generated less electricity than in November and December 2014, resulting in the decrease in fuel consumption.

4.2.2 As at June 30, 2015, non-current liabilities were Baht 20,654.87 million, increasing by Baht 1,669.20 million from Baht 18,985.67 million as at December 31, 2014. The main reason was, in March 2015, Ratchaburi Electricity Generating Co., Ltd. issued Baht 2,000 million debenture, as specified in no. 4.1.1.

### 4.3 Analysis of Equity

As at June 30, 2015, equity was Baht 61,401.26 million, increasing by Baht 201.86 million from Baht 61,199.40 million as at December 31, 2014. The main reasons were as follows:

4.3.1 The profit of the first six-month period of the year 2015 in the amount of Baht 2,307.64 million

4.3.2 The dividend payment in accordance with shareholders' resolution in the Annual General Meeting of Shareholders on April 10, 2015 decreased retained earnings in the amount of Baht 1,696.50 million.

4.3.3 Other components of equity decreased in the amount of Baht 283.81 million. The main reason was currency translation differences decreased the equity in the amount of Baht 312.37 million. On the other hand, there was a gain on fair value changes in investment in EDL-GEN in the amount of Baht 28.56 million.

4.3.4 Non-controlling interests decreased by Baht 125.47 million.

## 5. Analysis of Cash Flows

(Million Baht)

	Quarter 1-2		Increase (Decrease)
	2015	2014	
Net cash from operating activities	4,781.13	3,745.53	1,035.60
Net cash (used in) investing activities	(4,029.01)	(1,925.53)	(2,103.48)
Net cash (used in) financing activities	(1,607.56)	(1,334.78)	(272.78)
	(855.44)	485.22	(1,340.66)
Effect of exchange rate on balances held on foreign currencies	476.67	6.43	470.24
Cash and cash equivalents at beginning of period	10,623.06	7,437.78	3,185.28
Cash of subsidiary acquired/disposed during the period	-	45.70	(45.70)
Cash and cash equivalents at end of period	<b>10,244.29</b>	<b>7,975.13</b>	<b>2,269.16</b>

Cash and cash equivalents of the Company and its subsidiaries as at June 30, 2015 were Baht 10,244.29 million, increasing by Baht 2,269.16 million from Baht 7,975.13 million on June 30, 2014. The details were summarized below:

5.1 The increase in net cash from operating activities increased cash flow in the amount of Baht 1,035.60 million. The reason was the change in operating assets and liabilities increased cash in the amount of Baht 1,947.18 million. On the other hand, the operating result in the first-six month of the year 2015 decreased cash in the amount of Baht 911.58 million.

5.2 The increase in net cash used in investing activities decreased cash flow in the amount of Baht 2,103.48 million. The main reason was, in the first-six month of the year 2015, the Company invested in financial investments more than in the same period of the previous year in the amount of Baht 2,180.20 million.

5.3 The increase in net cash used in financing activities decreased cash flow in the amount of Baht 272.78 million. The main reasons were as follows:-

5.3.1 In the first-six month of the year 2015, Ratchaburi Electricity Generating Co., Ltd. had repaid for its loans more than in the same period of the previous year in the amount of Baht 1,550 million.

5.3.2 In the first-six month of the year 2015, Ratchaburi Electricity Generating Co., Ltd. had issued a Baht 2,000 million debenture, as specified in no. 4.1.1. as well as repaid the previous debenture less than in the same period of the prior year in the amount of Baht 1,790 million.

5.3.3 In May 2014, RH International (Singapore) Corporation PTE. Ltd., a subsidiary in Singapore, had issued a USD 300 million debentures to repay SGD 260 million short-term loan, leading to an increase in net cash received in the first-six month of the year 2014 at the amount of Baht 3,037.50 million.

## 6. Significant Financial Ratios

Ratios		Quarter 2	
		2015	2014
1) Current Ratio	(Times)	2.19	1.93
2) Net Profit to Total Revenue (excluded fuel costs)	(%)	28.03	42.78
3) Return on Equity **	(%)	7.11	10.55
4) Return on Assets**	(%)	4.22	6.46
5) EBITDA *	(Million Baht)	2,329	2,952
6) EBITDA to Total Assets	(%)	2.40	3.08
7) Debt to Equity Ratio	(Times)	0.59	0.56
8) Debt Service Coverage Ratio	(Times)	3.08	1.61
9) Book Value per Share	(Baht)	42.14	42.71
10) Earning per Share	(Baht)	0.79	1.27
* Not included the change in lease receivable		(Million Baht)	947.02
			977.63

\*\* Data for 12-month period