

# Ratchaburi Electricity Generating Holding PCL

## Management Discussion and Analysis

For the Year Ended 31 December, 2015



**RATCHABURI**  
ELECTRICITY GENERATING  
HOLDING PCL.



(Translation)

## 1. Significant events of the year 2015

### 1.1 The Commencement of Commercial Operation of Ratchaburi World Cogeneration SPP Power Plant

On March 1, 2015, Ratchaburi World Cogeneration SPP Power Plant, held 40 percent stake through Ratchaburi Electricity Generating Co., Ltd., a subsidiary, has commenced commercial operation for all 2 units of its power plant, which an installed capacity of 234 megawatts or 93.60 megawatts of which is the Company's attribution. The project is located in Chet Samian Sub-district, Potharam District, Ratchaburi Province.

### 1.2 The Commencement of Commercial Operation of Hongsa Thermal Power Project

Hongsa Thermal Power Project, held 40 percent stake by RH International (Singapore) Corporation PTE., a subsidiary, has commenced commercial operation of the unit 1 and unit 2 of its power plant as scheduled on June 2, 2015 and November 2, 2015, respectively. 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. While, the commercial operation of the unit 3 will commence in March 2016.

### 1.3 Establishment of RATCH China Power Limited and Investment in Fangchenggang Nuclear Power Plant II Project in the People's Republic of China

On September 11, 2015, RH International (Singapore) Corporation PTE. Ltd., a subsidiary in Singapore, established RATCH China Power Limited, a subsidiary company in Hong Kong Special Administrative Region of the People's Republic of China to invest in the power energy business internationally. The registered capital is USD 1, dividing into 1 ordinary shares at USD 1 each, with the 100 percent held by RH International (Singapore) Corporation PTE. Ltd., and its issued capital was fully paid.

On December 23, 2015, RATCH China Power Limited entered into Equity Joint Venture Contract with China General Nuclear Power Corporation and Guangxi Investment Group Co., Ltd. with the investment proportion of 10, 51, and 39 percent respectively in order to establish Guangxi Fangchenggang Nuclear Power (II) Co., Ltd. to invest in Fangchenggang Nuclear Power Plant II Project with the capacity of 2 x 1,180 megawatts. The project is located in Fangchenggang City, Guangxi Zhuang Autonomous Region, the People's Republic of China. The project is expected to commercially operate in 2021.

## 1.4 Establishment of RE Solar 1 Co., Ltd.

On October 6, 2015, Ratchaburi Energy Co., Ltd., a subsidiary, established RE Solar 1 Co., Ltd. to invest in renewable energy projects. The registered capital is Baht 100 million, dividing into 10 million ordinary shares at Baht 10 each, with the 99.99 percent held by Ratchaburi Energy Co., Ltd., and its issued capital was paid for Baht 2.50 each, amounting to Baht 25 million.

## 1.5 Commercial Operation of Songkhla Biomass Power Plant

Songkhla Biomass Power Plant, which Ratchaburi Energy Co., Ltd., a subsidiary, held 40 percent stake in Songkhla Biomass Co., Ltd., has commenced commercial operation on November 9, 2015. The project is located in Chana District, Songkhla Province, and has installed capacity of 9.9 megawatts, 3.96 megawatts of which is the Company's attribution.

## 1.6 Purchase of EDL-Generation Public Company's Shares in Lao PDR

RATCH-Lao Services Co., Ltd. ("RL") and RH International (Singapore) Corporation PTE. Ltd. ("RHIS") have held the shares of EDL-Generation Public Company ("EDL-Gen") in Lao PDR for 71.14 million shares (5.80 percent) and 52.81 million shares (4.31 percent), respectively since 2012. In the EDL-Gen shareholders' meeting held on April 27, 2015, the shareholders resolved to increase its registered capital by issuing 452.83 million additional common shares. In 2015, RL and RHIS exercised the right to purchase 41.32 million additional common shares that were allocated by Right Offering in the equivalent amount of Baht 1,093.15 million. As a result, RL and RHIS have held the shares of EDL-Gen in the totaling of 94.85 million shares (5.65 percent) and 70.41 million shares (4.19 percent), respectively.

In February 2016, RHIS additionally purchased 4.51 million common shares; as a result, RHIS has held the shares of EDL-Gen in the totaling of 74.92 million shares (4.46 percent) and the proportion of Company's shareholding in EDL-Gen through RL and RHIS increased to 10.11 percent.

## 2. Operation performance according to consolidated financial statement

(Million Baht)

|  | 2015            | 2014            | Increase<br>(Decrease) | %             |
|--|-----------------|-----------------|------------------------|---------------|
| Revenue  | 59,326.30       | 57,903.03       | 1,423.27               | 2.5           |
| Gain on bargain purchase the shares of TECO                        | -               | 797.29          | (797.29)               | -             |
| Total Revenue  | 59,326.30       | 58,700.32       | 625.98                 | 1.1           |
| <u>Less</u> Fuel Cost  | 44,965.07       | 42,622.74       | 2,342.33               | 5.5           |
| Revenue (excluded Fuel Cost)                                       | 14,361.23       | 16,077.58       | (1,716.35)             | (10.7)        |
| Cost of Sales and Expenses (excluded Fuel Cost)                    | 10,012.56       | 10,285.42       | (272.86)               | (2.7)         |
| Profit for the year  | 4,348.67        | 5,792.16        | (1,443.49)             | (24.9)        |
| Non-controlling Interests  | 172.95          | 138.88          | 34.07                  | 24.5          |
| <b>Profit Attributable to Owner of the Company before exchange</b> | 4,521.62        | 5,931.04        | (1,409.42)             | (23.8)        |
| Profit (Loss) from Exchange Rate                                   | (1,333.75)      | 347.99          | (1,681.74)             | (483.3)       |
| <b>Profit Attributable to Owner of the Company</b>                 | <b>3,187.87</b> | <b>6,279.03</b> | <b>(3,091.16)</b>      | <b>(49.2)</b> |
| Earnings per share (Baht)  | 2.20            | 4.33            | (2.13)                 | (49.2)        |

The operating result, for the year 2015, without consideration of the effect of foreign exchange rate of the Company and its subsidiaries showed the profit of Baht 4,521.62 million, compared to the profit of Baht 5,931.04 million of the year 2014, decreasing by Baht 1,409.42 million, or 23.8 percent. Considering the effect of foreign exchange rate, the operating result according to the consolidated financial statements of the Company and its subsidiaries for the year 2015 showed the profit of Baht 3,187.87 million or Baht 2.20 per share, compared to the profit of Baht 6,279.03 million or Baht 4.33 per share of the year 2014, which showed a decrease in profit of Baht 3,091.16 million, or 49.2 percent. The significant transactions were as follows:-

## **2.1 The effect of exchange rate**

In the year 2015, the Company recorded loss on exchange rate of Baht 1,333.75 million; while, in the year 2014, the Company recorded gain on exchange rate of Baht 347.99 million. The main reason was from the fact that the Company had substantial assets net of liabilities in foreign currency, the significant appreciation of US Dollar currency in the year 2015 resulted in the extraordinary decrease of net asset value in other currencies.

## **2.2 Revenue from Sales and Rendering of Services (excluding fuel costs)**

Revenue from sale and rendering of services (excluding fuel costs of Baht 44,965.07 million) for the year 2015 was Baht 7,206.37 million, increasing by Baht 427.10 million or 6.3 per cent from revenue from sale and rendering of services (excluding fuel costs of Baht 42,622.74 million) of Baht 6,779.27 million in the year 2014. The main reason was the increase in revenue from sale of Ratchaburi Power Plants, in the amount of Baht 447.82 million due to the increase in Base Availability Credit in 2015 comparing to 2014, as specified in the Power Purchase Agreement.

## **2.3 Revenue from Finance Leases Contracts**

Revenue from finance leases contracts for the year 2015 was Baht 5,005.33 million, decreasing by Baht 562.41 million from 5,567.74 million or 10.1 percent in the year 2014. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

## **2.4 Cost of sale and rendering of services (excluding fuel costs)**

Cost of sale and rendering of services (excluding fuel costs of Baht 44,965.07 million) for the year 2015 was Baht 5,651.59 million, increasing by Baht 360.65 million, or 6.8 percent from revenue from Sale and rendering of services (excluding fuel costs of Baht 42,622.74 million) Baht 5,290.94 million in the year 2014. The main reason was from the increase in spare part expenses of Ratchaburi Power Plants by Baht 325.44 million since the shutdowns for planned maintenance in the year 2015 were more than those of the previous year. The maintenance schedules were as follows:

## Planned Maintenance

| <u>Ratchaburi Power Plants</u>     |           | <u>2015</u>                           | <u>2014</u>               |
|------------------------------------|-----------|---------------------------------------|---------------------------|
| Thermal Power Plant Unit 1         |           | MI : Oct 4 - Nov 12, 2015             | -                         |
| Thermal Power Plant Unit 2         |           | MI : Nov 15 - Dec 24, 2015            | -                         |
| Combined Cycle Power Plant Block 1 | GT # 1, 2 | MI : Oct 2 - Nov 16, 2015             | CI : Feb 14 - 23, 2014    |
|                                    | ST        | MO : Sep 13 - Nov 2, 2015             | -                         |
| Combined Cycle Power Plant Block 2 | GT # 1, 2 | CI : Dec 12 - 24, 2015                | CI : Oct 12 - 22, 2014    |
|                                    | ST        | MO : Nov 8 - Dec 24, 2015             | -                         |
| Combined Cycle Power Plant Block 3 | GT # 1, 2 | CI : Jan 1 - 15, May 30 - Jun 7, 2015 | MO : May 18 - Jul 8, 2014 |
|                                    | ST        | MO : Apr 26 - Jun 11, 2015            | -                         |

*MO = Major Overhaul, MI = Minor Inspection, CI = Combustion Inspection, GT = Gas Turbine, ST = Steam Turbine*

## **2.5 Gain on bargain purchase the shares of Tri Energy Co., Ltd. in the year 2014**

On January 28, 2014, Ratchaburi Gas Co., Ltd., a subsidiary which completed a liquidation process on August 28, 2014, acquired an additional 49.99 percent 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 percent of the issued and paid up capital. The Company recognized gain on bargain purchase from such acquisition at Baht 797.29 million.

## **2.6 Other income**

Other income for the year 2015 was Baht 224.80 million, decreasing by Baht 632.10 million or 73.8 percent from Baht 856.90 million in the year 2014. The main reason was the reversal of the deferred consideration payable and reimbursement the project development of RATCH-Australia Corporation Co., Ltd., a subsidiary, in the amount of Baht 440.24 million since the counterparty failed to meet investment criteria in the agreement in 2014. In addition, in 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.

## 2.7 Administrative Expenses

Administrative expenses for the year 2015 were Baht 1,567.20 million, decreasing by Baht 639.45 million or 29.0 percent from Baht 2,206.65 million in the year 2014. The main reason was, in the year 2014, the Company recognized impairment loss on a renewable power plant in Australia in the amount of Baht 509.55 million due to its current trading performance declining. In addition, in the year 2014, the Company recognized loss on disposal of the investment in Sustainable Energy Corporation Co., Ltd., an indirect subsidiary which develops of a wind farm project in Phetchabun Province, in the amount of Baht 142.11 million.

## 2.8 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the year 2015 was Baht 1,116.09 million, decreasing by Baht 168.73 million or 13.1 percent from Baht 1,284.82 million in the year 2014. The main reasons were as follows:-

2.8.1 The operating results of Hongsa Power Company Limited, Ratchaburi Power Company Limited, and Southeast Asia Energy Limited decreased in the total amount of Baht 391.13 million. The main reason was the appreciation of US Dollar Currency during the year 2015 led to the loss on exchange rate in such companies, in the Company's portion, in the total amount of Baht 585.86 million.

However, the operating results of such companies, without considering the effect of foreign exchange rate, had increased by Baht 323.66 million. The main reason was, the operating result of Hongsa Power Company Limited, in a portion of 40 percent, had increased by Baht 431.42 million since Hongsa Power Plant had commenced its commercial operation of the 1<sup>st</sup> unit and 2<sup>nd</sup> unit on June 2, 2015 and November 2, 2015, respectively. In addition, the 3<sup>rd</sup> unit is planned to start commercial operation in March 2016.

2.8.2 The share of profit in Ratchaburi World Cogeneration Co., Ltd., a joint venture, in a portion of 40 percent, increased in the amount of Baht 131.92 million since the power plant has commenced commercial operation for all 2 units on November 1, 2014 and March 1, 2015, respectively.



### 3. Analysis of Statements of Financial Position

#### 3.1 Analysis of Assets

As at December 31, 2015, the total assets were Baht 92,605.05 million, decreasing by Baht 3,629.99 million or 3.8 percent from Baht 96,235.04 million as at December 31, 2014. The details were as follows:

(Million Baht)

|                     | Dec 31, 2015     | Dec 31, 2014     | Increase<br>(Decrease) | %            |
|---------------------|------------------|------------------|------------------------|--------------|
| Current assets      | 25,983.50        | 31,407.68        | (5,424.18)             | (17.3)       |
| Non-current assets  | 66,621.55        | 64,827.36        | 1,794.19               | 2.8          |
| <b>Total Assets</b> | <b>92,605.05</b> | <b>96,235.04</b> | <b>(3,629.99)</b>      | <b>(3.8)</b> |

3.1.1 Cash and cash equivalents decreased in the amount of Baht 3,158.54 million. The details are described in no.4.

3.1.2 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Co., Ltd., a subsidiary, decreased in the amount of Baht 2,036.51 million. This resulted from the revenues from sales in November and December 2015 were lower than those in November and December 2014.

3.1.3 Investments in joint ventures increased in the amount of Baht 6,087.54 million due to the additional acquisitions during the year 2015 in the total amount of Baht 6,132.61 million, as follows:

| <u>Company</u>                          | <u>Million THB</u> |
|---|--------------------|
| Hongsa Power Co., Ltd.                  | 5,036.69           |
| Ratchaburi World Cogeneration Co., Ltd. | 500.00             |
| RICI International Investment Pte. Ltd. | 306.57             |
| Xe-Pian Xe-Namnoy Power Company Limited | 258.90             |
| Renewable companies                     | <u>30.45</u>       |
| Total                                   | <u>6,132.61</u>    |



3.1.4 Financial lease receivables from related party decreased in the amount of Baht 3,427.58 million.

3.1.4 Property, plant and equipment decreased in the amount of Baht 1,001.16 million due to the depreciation during the year in the amount of 1,011.43 million.

## 3.2 Analysis of Liabilities

As at December 31, 2015, total liabilities were Baht 32,185.21 million, decreasing by Baht 2,850.43 million or 8.1 percent from Baht 35,035.64 million as at December 31, 2014. The details were as follows:

|                         | (Million Baht)   |                  |                                   |
|-------------------------|------------------|------------------|-----------------------------------|
|                         | Dec 31, 2015     | Dec 31, 2014     | Increase<br>(Decrease)<br>%       |
| Current Liabilities     | 11,658.07        | 16,049.97        | (4,391.90)<br>(27.4)              |
| Non-Current Liabilities | 20,527.14        | 18,985.67        | 1,541.47<br>8.1                   |
| <b>Liabilities</b>      | <b>32,185.21</b> | <b>35,035.64</b> | <b>(2,850.43)</b><br><b>(8.1)</b> |

3.2.1 Short-term loans from financial institutions and bill of exchange payables decreased in the amount of baht 2,900 million due to the repayments during the year.

3.2.2 In March, 2015, Ratchaburi Electricity Generating Co., Ltd., a subsidiary, issued debentures of Baht 2,000 million for working capital purpose.

3.2.2 Trade accounts payable of Ratchaburi Electricity Generating Co., Ltd., a subsidiary, decreased in the amount of baht 1,700.61 million. The main reason was Ratchaburi Power Plants generated electricity in November and December 2015 less than in November and December 2014, resulting in the increase in fuel consumption; as well as, fuel price was less than that in November and December 2014.

### 3.3 Analysis of Equity

As at December 31, 2015, equity was Baht 60,419.84 million, decreasing by Baht 779.56 million from Baht 61,199.40 million as at December 31, 2014. The main reasons were as follows:

3.3.1 The profit of the year 2015 in the amount of Baht 3,187.87 million

3.3.2 The dividend payment during the year 2015 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 488.52 million. The main reason was a loss on fair value changes in investment in EDL-Generation Public Company in the amount of Baht 528.61 million.

3.3.4 Non-controlling interests decreased by Baht 187.40 million.

## 4. Analysis of Cash Flows

|  | (Million Baht)  |                  |
|--|-----------------|------------------|
|  | 2015            | 2014             |
| Net cash from operating activities                             | 9,256.17        | 9,841.55         |
| Net cash used in investing activities                          | (6,248.03)      | (2,419.72)       |
| Net cash used in financing activities                          | (6,740.69)      | (4,366.29)       |
|  | (3,732.55)      | 3,055.54         |
| Effect of exchange rate on balances held on foreign currencies | 574.01          | 112.37           |
| Net cash increase (decrease) during the year                   | (3,158.54)      | 3,167.91         |
| Cash and cash equivalents at beginning of the year             | 10,623.06       | 7,437.78         |
| Cash of subsidiary acquired during the year                    | -               | 45.70            |
| Cash of subsidiary sold during the year                        | -               | (28.33)          |
| Cash and cash equivalents at end of the year                   | <b>7,464.52</b> | <b>10,623.06</b> |

Cash and cash equivalents of the Company and its subsidiaries as at December 31, 2015 were Baht 7,464.52 million, decreasing by Baht 3,158.54 million from Baht 10,623.06 million on December 31, 2014. The details were summarized below:

4.1 Net cash from operating activities increased cash flow in the amount of Baht 9,256.17 million. The reason was the operating result of the year 2015 increased cash in the amount of Baht 6,264.06 million. In addition, the change in operating assets and liabilities increased cash in the amount of Baht 2,992.11 million.

4.2 Net cash used in investing activities decreased cash flow in the amount of Baht 6,248.03 million. The main reason was, in the year 2015, the Company additionally invested in joint ventures in the amount of Baht 6,132.61 million, as specified in no. 3.1.3.

4.3 Net cash used in financing activities decreased cash flow in the amount of Baht 6,740.69 million. The main reasons were as follows:-

4.3.1 In the year 2015, the Company had loan repayment in the net amount of Baht 3,418.49 million.

4.3.2 In the year 2015, the Company paid the dividend to its shareholders in the amount of Baht 3,290.55 million.

4.3.3 In the year 2015, Ratchaburi Electricity Generating Co., Ltd., a subsidiary, had issued a Baht 2,000 million debenture, as specified in no. 3.2.2 while repaid the previous debenture in the amount of Baht 721.40 million.

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

| Ratios   |                | 2015  | 2014   |
|--|----------------|-------|--------|
| 1) Current Ratio                                     | (Times)        | 2.23  | 1.96   |
| 2) Net Profit to Total Revenue (excluded fuel costs) | (%)            | 30.28 | 36.03  |
| 3) Return on Equity                                  | (%)            | 7.48  | 9.96   |
| 4) Return on Assets                                  | (%)            | 4.61  | 6.09   |
| 5) EBITDA *  | (Million Baht) | 8,645 | 10,175 |
| 6) EBITDA to Total Assets                            | (%)            | 9.16  | 10.70  |
| 7) Debt to Equity Ratio                              | (Times)        | 0.53  | 0.57   |
| 8) Debt Service Coverage Ratio                       | (Times)        | 4.06  | 1.30   |
| 9) Book Value per Share                              | (Baht)         | 41.51 | 41.92  |

\* Not included the change in lease receivable (Million Baht) 3,552.83 3,815.90