

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the 1st Quarter Ended 31 March, 2017

RATCH



RATCHABURI
ELECTRICITY GENERATING
HOLDING PCL.



(Translation)

1. Significant events of the 1st quarter of 2017

1.1 Signing of Engineering, Procurement, and Construction Contract of Berkprai Cogeneration SPP Project

On March 7, 2017, Berkprai Cogeneration Company Limited (an indirect joint venture in which Ratchaburi Electricity Generating Company Limited, the Company's direct subsidiary, holds 35 percent stake), the operator of Berkprai Cogeneration SPP Project, has entered into the Engineering, Procurement, and Construction Contract (EPC Contract) with the Consortium of Thai Jurong Engineering Limited and Jurong Engineering Limited.

On April 5, 2017, Ratchaburi Electricity Generating Company Limited has paid for additional share capital, by its proportion, in the amount of Baht 60.56 million. As a result, the total paid up capital is Baht 506.40 million or 38.05 percent of the registered capital.

Berkprai Cogeneration SPP Project has approximately 100 megawatts electricity generating capacity and steam generating capacity of 15 tons per hour. It is located in Berkprai Sub-district, Ban Pong District, Ratchaburi Province. The Project has 25-year Firm Cogeneration PPA with Electricity Generating Authority of Thailand. It is expected to commence commercial operation in 2019.

1.2 The Progress of the Bidding of the MRT Pink Line (Khae Rai – Min Buri) and the MRT Yellow Line (Lat Phrao – Samrong)

As the Company together with BTS Group Holding Public Company Limited and Sino-Thai Engineering & Construction Public Company Limited have jointly submitted the proposals under the name of "BSR Joint Venture", on November 7, 2016, for the biddings of the MRT Pink Line Project (Khae Rai - Min Buri and the MRT Yellow Line Project (Lat Phrao - Samrong) to Mass Rapid Transit Authority of Thailand ("MRTA") and consequently be notified by MRTA that BSR Joint Venture was the bidder who proposed the best offer for the MRT Pink Line Project and the MRT Yellow Line Project;

On March 21, 2017, the Company's Board of Directors resolved to approve the Company to jointly invest and enter into concession agreement of the MRT Pink Line Project and the MRT Yellow Line Project with MRTA. BSR Joint Venture will establish 2 new companies ("JV Company 1 and JV Company 2"), in which the Company would hold 10 percent stake or equivalent to the total of Baht 2,800 million (Baht 1,400 million for each new company.). BSR Joint Venture is negotiating on the concession agreement with MRTA

and will sign investment agreement after the MRTA has been granted approval by the Cabinet to enter into investment agreement of the MRT Pink Line Project and the MRT Yellow Line Project.

The MRT Pink Line Project (Khae Rai - Min Buri), having a total track length of 34.5 kilometers, and the MRT Yellow Line Project (Lat Phrao - Samrong), having a total track length of 30.4 kilometers, to Mass Rapid Transit Authority of Thailand ("MRTA"), both projects are under the Public-Private Partnership (PPP) framework.

1.3 The participation in the Investment in Riau Combined-Cycle Power Plant Project in the Republic of Indonesia

On April 7, 2017, RH International (Singapore) Corporation Pte. Ltd. ("RHIS"), an indirect subsidiary, had invested in Riau Combined-Cycle Power Plant Project, in the proportion of 49 percent. Subsequently on April 20, 2017, RHIS paid 25 percent initial paid-up capital in the proportion of investment of 49 percent amounting to Indonesian Rupiah 1,470 million or equivalent to Baht 3.80 million.

Riau Combined-Cycle Power Plant Project is located in the Republic of Indonesia, with the production capacity of 275 megawatts and 20-year Power Purchase Agreement. The Commercial Operation Date is expected to be within the year 2021.

2. Operation performance according to consolidated financial statement

Unit : Million Baht

	Quarter 1		Increase (Decrease)	%
	2017	2016		
Revenue from sale and rendering of services (excluded Fuel Cost)	1,723.91	1,670.54	53.37	3.2
Revenue from financial leases	1,056.21	1,168.23	(112.02)	(9.6)
Share of profit of associate entities and joint ventures	526.70	358.38	168.32	47.0
Other incomes	209.37	193.50	15.87	8.2
Total revenues	3,516.19	3,390.65	125.54	3.7
Cost of sale and rendering of services (excluded Fuel Cost)	1,337.90	1,154.55	183.35	15.9
Administrative expenses	435.73	371.03	64.70	17.4
Finance costs	400.37	326.84	73.53	22.5
Income tax expense	247.06	309.06	(62.00)	(20.1)
Total expenses	2,421.06	2,161.48	259.58	12.0
	1,095.13	1,229.17	(134.04)	(10.9)
Non-controlling Interests	30.31	23.67	6.64	28.1
Profit Attributable to Owner of the Company before exchange rate	1,125.44	1,252.84	(127.40)	(10.2)
Gain (loss) on exchange rate	233.00	6.49	226.51	3,490.1
Profit Attributable to Owner of the Company	1,358.44	1,259.33	99.11	7.9
Earnings per share (Baht)	0.94	0.87		

Fuel Cost *7,074.14* *10,405.81*

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 1st quarter of 2017 showed the profit of Baht 1,358.44 million or Baht 0.94 per share, compared to the profit of Baht 1,259.33 million or Baht 0.87 per share of the 1st quarter of 2016, which showed an increase in profit of Baht 99.11 million, or 7.9 percent. The significant transactions were as follows:-

2.1 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the 1st quarter of 2017 was Baht 526.70 million, increasing by Baht 168.32 million or 47.0 percent from Baht 358.38 million in the 1st quarter of 2016. The main reasons were as follows:-

2.1.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 218.12 million; as well as, the profit 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 15.51 million, since Hongsa Power Plants commenced its commercial operation for 3 units on June 2, 2015, November 2, 2015, and March 2, 2016, respectively.

2.1.2 The profit of Navanakorn Electricity Generating Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 41.40 million since the power plant has commenced commercial operation on June 3, 2016.

2.1.3 The profit of Ratchaburi Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 46.15 million. The main reason was the decrease in revenue from finance leases contracts in the amount of Baht 28.40 million. In addition, the income tax expense increased in the amount of Baht 6.92 million due to the expiration of BOI tax exemption since March 1, 2016.

2.1.4 The loss of Xe-Pian Xe-Namnoy Power Company Limited, an under construction joint venture, in a portion of 25 percent, increased in the amount of Baht 45.21 million due to loss on exchange rate in the amount of Baht 46.23 million.

2.2 The effect of exchange rate of the Company and its subsidiaries

In the 1st quarter of 2017, the Company recorded gain on exchange rate of Baht 233.00 million. The main reason was the appreciation of AUD dollar currency which resulted in the increase in asset value in AUD dollar currency.

2.3 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 1st quarter of 2017 was Baht 1,056.21 million, decreasing by Baht 112.02 million from 1,168.23 million or 9.6 percent in the 1st quarter of 2016. 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 7,074.14 million) for the 1st quarter of 2017 was Baht 1,337.90 million, increasing by Baht 183.35 million, or 15.9 percent from revenue from Sale and rendering of services (excluding fuel costs of Baht 10,405.81 million) Baht 1,154.55 million in the 1st quarter of 2016. The main reason was from the increase in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 198.84 million since the shutdowns for planned maintenance in the 1st quarter of 2017 were more than those of the same period of the previous year.

3. Analysis of Statements of Financial Position

3.1 Analysis of Assets

As at March 31, 2017, the total assets were Baht 96,748.89 million, increasing by Baht 357.80 million or 0.4 percent from Baht 96,391.09 million as at December 31, 2016. The details were as follows:

(Million Baht)

	Mar 31, 2017	Dec 31, 2016	Increase (Decrease)	%
Current assets	27,019.74	26,303.02	716.72	2.7
Non-current assets	69,729.15	70,088.07	(358.92)	(0.5)
Total Assets	96,748.89	96,391.09	357.80	0.4

3.1.1 Cash and cash equivalents increased in the amount of Baht 3,498.48 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 3,067.49 million since, as at March 31, 2017, the receivable consisted of the electricity sale in March 2017; whereas, as at December 31, 2016, the receivable consisted of the electricity sale in the November and December 2016.

3.2 Analysis of Liabilities and Equity

As at March 31, 2017, total liabilities and equity were Baht 96,748.89 million, increasing by Baht 357.80 million or 0.4 percent from Baht 96,391.09 million as at December 31, 2016. The details were as follows:

(Million Baht)				
	Mar 31, 2017	Dec 31, 2016	Increase (Decrease)	%
Liabilities	33,165.89	33,938.32	(772.43)	(2.3)
Equity	63,583.00	62,452.77	1,130.23	1.8
Total Liabilities and Equity	96,748.89	96,391.09	357.80	0.4

3.2.1 Liabilities decreased in the amount of Baht 772.43 million. The main reason is, trade accounts payable of Ratchaburi Electricity Generating Company Limited decreased in the amount of baht 1,052.71 million. The main reason was Ratchaburi Power Plants generated electricity in February and March 2017 less than in November and December 2016, resulting in the decrease in fuel consumption.

3.2.2 Equity increased in the amount of Baht 1,130.23 million. The main reasons are as follows:

- (1) The profit of the 1st quarter of 2017 in the amount of Baht 1,358.44 million
- (2) Other components of equity decreased in the amount of Baht 202.15 million. The main reason was, currency translation differences decreased the equity in the amount of Baht 390.30 million; whereas, fair value changes in investment in EDL-Generation Public Company increased the equity in the amount of Baht 188.03 million.
- (3) Non-controlling interests decreased by Baht 26.06 million.

4. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at March 31, 2017 were Baht 12,917.69 million, increasing by Baht 3,498.48 million from Baht 9,419.21 million on December 31, 2016. The details were summarized below:

	(Million Baht)
Net cash from operating activities	4,490.32
Net cash used in investing activities	(683.65)
Net cash used in financing activities	(225.09)
Effect of exchange rate changes on balances held in foreign currencies	(83.10)
Net cash increase (decrease) during the period	<u><u>3,498.48</u></u>

4.1 Net cash from operating activities increased cash flow in the amount of Baht 4,490.32 million. The reason was the operating result of the 1st quarter of 2017 increased cash in the amount of Baht 1,565.91 million. In addition, the change in operating assets and liabilities increased cash in the amount of Baht 2,924.41 million.

4.2 Net cash used in investing activities decreased cash flow in the amount of Baht 683.65 million. The main reasons were as follow:-

4.2.1 RATCH-Australia Corporation Limited, a subsidiary, invested in Mount Emerald Wind farm project in the total amount of AUD 37.25 million (equivalent to baht 990.68 million).

4.2.2 The Company additionally invested in Xe-Pian Xe-Namnoy Power Company Limited in the amount of Baht 243.65 million.

4.2.3 The Company received dividends from joint ventures in the total amount of Baht 524.50 million.

4.3 Net cash used in financing activities decreased cash flow in the amount of Baht 225.09 million. The main reasons were as follow:-

4.3.1 The Company paid for interest expenses in the amount of Baht 355.94 million.

4.3.2 RATCH-Australia Corporation Limited received long-term loan from financial institutes in the amount of AUD 5 million (equivalent to baht 131.66 million).

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

Ratios		Quarter 1	
		2017	2016
1) Current Ratio	(Times)	2.61	2.04
2) Profit to Total Revenue (excluded fuel costs)	(%)	31.15	36.25
3) Return on Equity **	(%)	9.39	9.81
4) Return on Assets **	(%)	6.12	6.26
5) EBITDA *	(Million Baht)	2,113	2,131
6) EBITDA to Total Assets	(%)	2.19	2.31
7) Debt to Equity Ratio	(Times)	0.52	0.48
8) Debt Service Coverage Ratio	(Times)	4.71	5.79
9) Book Value per Share	(Baht)	43.78	42.65

* Not included the change in lease receivable (Million Baht) 994.94 796.19

** Data for 12-month period