

# RATCH Group Public Company Limited

## Management Discussion and Analysis

For the Year Ended December 31, 2019



## Executive Summary

Unit : Million baht

	2019	2018	Increase (Decrease)	%
Total revenues *	15,668.94	14,780.73	888.21	6.0
Total cost and expenses *	9,573.18	8,346.74	1,226.44	14.7
Gain (Loss) on foreign exchange	(132.48)	(865.02)	732.54	84.7
Profit attributable to owner of the Company	5,963.28	5,587.60	375.68	6.7

\* excluding fuel cost

The operating result for the year 2019 showed the profit (attributable to owners of the Company) of THB 5,963.28 million, increasing by THB 375.68 million. The increase is owing to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively, and the acquisition of RATCH Cogeneration Company Limited on October 1, 2019. These resulted in the increase in revenue from sales and rendering of services and cost of sales and rendering of services (excluding fuel costs). Also, the revenue from sales of Ratchaburi Electricity Generating Company Limited increased due to the higher Base Availability Credit in 2019 compared to that of 2018. In addition, the Company recorded the profit from Fareast Renewable Development Pte Ltd acquired in December 2018 and Berkprai Cogeneration Company Limited commencing commercial operation on June 1, 2019.



(Translation)

## **1. Significant Events of the Year 2019**

### **1.1 The Investment in Underground Optic Fiber Network Project**

On February 5, 2019, the Company and ALT Telecom Public Company Limited (“ALT”) had entered into a Shareholders Agreement for the participation in the Underground Optic Fiber Network Project. On June 27, 2019, both companies have registered a joint venture company, named “Smart Infranet Company Limited”. Its registered capital was Baht 1 million, divided into 100,000 ordinary shares at Baht 10 each. The capital was fully paid. The Company held 51 percent stake and ALT held 49 percent stake.

### **1.2 Signing of Financial Documents for Collector Wind Farm in the Commonwealth of Australia**

On March 19, 2019, Collector Wind Farm Pty Ltd, a wholly owned subsidiary of RATCH-Australia Corporation Pty Ltd, had signed a binding debt documents with Clean Energy Finance Corporation, the lender, for a debt facility of AUD 179 million to use in the construction and development of the Collector Wind Farm, with capacity of 226.8 megawatts, located in New South Wales, the Commonwealth of Australia. The project cost is approximately AUD 359 million. It started the construction in 2019 and is anticipated to commence operations in 2021.

### **1.3 The Progress of Riau Combined-Cycle Power Plant Project in the Republic of Indonesia**

On March 20, 2019, PT Medco Ratch Power Riau, an indirect joint venture that the Company held 49 percent stake through RH International (Singapore) Corporation Pte. Limited, the Company’s subsidiary, had signed loan agreement and other related financial agreements with financial institutions. The total loan amount is USD 222 million for the period of 20 years. The purpose of the loan is to use in the construction and development of the 296.23 megawatts Riau Combined-Cycle Power Plant Project in the Republic of Indonesia, with a 20-year power purchase agreement with the Republic of Indonesia’s electricity authority, PT PLN (PERSERO).

On November 14, 2019, PT Medco Ratch Power Riau was successful in making the first drawdown. The construction is underway and the project is expected to commence commercial operation in 2021 as scheduled.

#### **1.4 Commercial Operation Commencement of Collinsville Solar PV Power Station in the Commonwealth of Australia**

On March 21, 2019, Collinsville Solar Power Project, with capacity of 42.50 megawatts, which the Company is investing in through Collinsville Solar PV Pty Ltd, an indirect subsidiary that is wholly owned by RATCH-Australia Corporation Pty Ltd has commenced commercial operations and recognition of benefit as per the Power Purchase Agreement. 70 percent of the generated electricity is sold to Alinta Energy, the power purchaser under the PPA, while the remaining 30 percent is sold into the Commonwealth of Australia's National Electricity Market.

#### **1.5 Change of the Company's Name and Seal**

On April 12, 2019, the 2019 Shareholders' Annual General Meeting of the Company had approved the change of the Company's name and seal from Ratchaburi Electricity Generating Holding Public Company Limited to RATCH Group Public Company Limited. The Company has already registered the changes to the Department of Business Development, Ministry of Commerce on April 17, 2019. In this regard, the Company still uses the same stock symbol "RATCH".

#### **1.6 Establishment of Hin Kong Power Holding Company Limited and Hin Kong Power Company Limited**

On May 24, 2019, the Company has established Hin Kong Power Holding Company Limited ("HKH"), which is the Company's wholly owned subsidiary. And on May 28, 2019, the Company has established Hin Kong Power Company Limited ("HKP"), which is fully owned by HKH. Each company's registered capital is Baht 4,000,000 divided into 400,000 ordinary shares, valuing at Baht 10 each and fully paid.

On July 12, 2019, HKP has entered into the Power Purchase Agreement for Hin Kong Power Project in Hin Kong Sub-district, Muang District, Ratchaburi Province with Electricity Generating Authority of Thailand. The agreement is effective from the execution date until the 25<sup>th</sup> year from the commercial operation date.

On January 3, 2020, the Company sold 196,000 ordinary shares of HKH or 49 percent of the total shares at THB 10 per share, which is at par price, totaling THB 1.96 million to Gulf Energy Development Public Company Limited.

The project is a combined-cycle power plant project that used natural gas as the main fuel with total contracted capacity of 1,400 megawatts (700 megawatts per unit) according to the Power Purchase Agreement. It is scheduled for commercial operation in 2024 and 2025 respectively. At present, the project is in the process of preparing the Environmental Impact Assessment.

### **1.7 Commercial Operations of Berkprai Cogeneration SPP Power Plant**

On June 1, 2019, Berkprai Cogeneration SPP Power Plant with power generation capacity of approximately 99.23 megawatts and steam generation capacity of approximately 15 tons per hour, located in Berkprai Sub-district, Ban Pong District, Ratchaburi Province, operated by Berkprai Cogeneration Company Limited (an indirect joint venture which the Company held 35 percent stake through Ratchaburi Electricity Generating Company Limited), has commenced commercial operations.

### **1.8 Investment in Yandin Wind Farm in the Commonwealth of Australia**

On July 26, 2019, RATCH-Australia Corporation Pty Ltd (“RAC”), a subsidiary, has invested in the 214-Megawatt Yandin Wind Farm located in Western Australia. RAC has purchased 70 percent of common shares in Yandin WF Holding Pty Ltd from Renewable Energy Investment Fund Pty Ltd (“REIF”), a subsidiary of Alinta Energy Pty Ltd (“Alinta”) and 70 percent of investment units in Yandin WF Holding Unit Trust from Renewable Energy Investment Fund Unit Trust. The investment is approximately AUD 53.31 million.

On July 15, 2019, the loan agreements with financial institutions totaling amount of AUD 364 million were signed. On October 10, 2019, the first drawdown was successfully made.

The project is located in the Dandaragan area, 150 kilometers north of Perth in Western Australia, the Commonwealth of Australia. The construction is underway and the Project is expected to commence commercial operation in 2020 as scheduled. The project has a 15-year power purchase agreement with Alinta Sales Pty Ltd, a subsidiary of Alinta.

### **1.9 Share Purchase of Navanakorn Electric Company Limited (Name Changed to RATCH Cogeneration Company Limited)**

On August 20, 2019, the Company has entered into Share Purchase Agreement to purchase ordinary and preferred shares of Navanakorn Electric Company Limited (The company’s name was subsequently changed to “RATCH Cogeneration Company Limited”.) at 99.97 percent, from the existing shareholders. On October 1, 2019, the Company paid for the shares in the amount of THB 1,866.05 million and provided a long-term loan in the amount of THB 132.35 million.

RATCH Cogeneration power plant is a gas-fired SPP cogeneration power plant with power generating capacity of 119.15 megawatts and steam generating capacity of 10 tons per hour. It is located in the south of Nava Nakorn Industrial Promotion Zone, Pathum Thani Province. It has a 25-year SPP-Firm Cogeneration Power Purchase Agreement with Electricity Generating Authority of Thailand for 90 megawatts. The remaining electricity and steam are sold to industrial customers. The power plant has already been commercially operating since October 31, 2013.

#### **1.10 Share Purchase of Things on Net Company limited**

On November 19, 2019, the Company has purchased ordinary shares and capital increase ordinary shares of Things on Net Company Limited at 35 percent or equivalent to THB 180.02 million in order to participate in the investment of installation and development of telecommunication networks and related business to provide Internet of Things services.

Things on Net Company Limited holds an exclusive license to operate Internet of Things network in Thailand with Sigfox technology, which is LPWAN connection technology with the network covering over 50 countries worldwide. Things on Net Company Limited has the goal to set up base station for Sigfox network to over 70 percent of the area and 85 percent of the population of Thailand. It is expected to operate commercially in 2020.

#### **1.11 Operation Status of Hongsa Thermal Power Plant in the Event of an Earthquake in Lao PDR**

On November 21, 2019, the event of 5.9 magnitude earthquake occurred in the center of Hongsa District, Xayaboury Province, Lao PDR. As a result, the prevention system of Hongsa Thermal Power Plant was automatically triggered, and the Power Plant has temporarily stopped its power generation. From the investigation of Hongsa Power Company Limited, there were no reported injuries and significant damage. The main structure of the Power Plant was not affected. Currently, all 3 units started electricity generating operation normally.

#### **1.12 Commercial Operation of Xe-Pian Xe-Namnoy Hydroelectric Power Plant in Lao PDR**

On December 6, 2019, Xe-Pian Xe-Namnoy Hydroelectric Power Plant in Lao PDR with installed capacity of 410 megawatts, located in Attapeu and Champasak Provinces, Lao PDR, operated by Xe-Pian Xe-Namnoy Power Company Limited (a joint venture which the Company held 25 percent stake), has commenced commercial operation.

## 2. Operation performance according to consolidated financial statement

		Unit : Million baht	
	2019	2018	Increase (Decrease) %
Revenue from sales and rendering of services (excluding fuel cost)	7,889.98	5,881.33	2,008.65 34.2
Revenue from finance lease contract	2,923.23	3,335.81	(412.58) (12.4)
Share of profit of associates / joint ventures	3,968.38	4,735.47	(767.09) (16.2)
Gain on bargain purchase - RATCH Cogeneration Company Limited	269.92	-	269.92 -
Other incomes	617.43	828.12	(210.69) (25.4)
<b>Total revenues</b>	<b>15,668.94</b>	<b>14,780.73</b>	<b>888.21</b> <b>6.0</b>
Cost of sales and rendering of services (excluding fuel cost)	5,676.90	4,867.28	809.62 16.6
Administrative expenses	1,595.99	1,593.99	2.00 0.1
Finance costs	1,430.22	1,014.89	415.33 40.9
Income tax expense	870.07	870.58	(0.51) (0.1)
<b>Total expenses</b>	<b>9,573.18</b>	<b>8,346.74</b>	<b>1,226.44</b> <b>14.7</b>
Non-controlling Interests	-	18.63	(18.63) (100.0)
Profit before exchange rate - the Company and subsidiaries	6,095.76	6,433.99	(338.23) (5.3)
Gain (loss) on foreign exchange - the Company and subsidiaries	(132.48)	(865.02)	732.54 84.7
<b>Profit attributable to owner of the Company</b>	<b>5,963.28</b>	<b>5,587.60</b>	<b>375.68</b> <b>6.7</b>
<b>Fuel Cost</b>	<b>27,551.13</b>	<b>30,302.81</b>	

The operating result according to the consolidated financial statement for the year 2019 showed the profit (attributable to owners of the Company) of THB 5,963.28 million or THB 4.11 per share, increasing by THB 375.68 million, or 6.7 percent, compared with the profit of THB 5,587.60 million or THB 3.85 per share of the year 2018. The operating result according to the consolidated financial statement for the year 2019, without consideration of the effect of foreign exchange gain (loss) of the Company and subsidiaries showed the profit of THB 6,095.76 million, compared with the profit of THB 6,452.62 million of the year 2018, decreasing by THB 356.86 million, or 5.5 percent. The significant transactions were as follows:

### 2.1 Revenue from sales and rendering of services (excluding fuel costs)

Revenue from sales and rendering of services for the year 2019 was THB 7,889.98 million (excluding fuel costs of THB 27,551.13 million), increasing by THB 2,008.65 million or 34.2 percent from revenue from sales and rendering of services in year 2018 of THB 5,881.33 million (excluding fuel costs of THB 30,302.81 million). The main reasons were as follows:

(1) The increase in revenue from sales of RATCH-Australia Corporation Pty Ltd, a subsidiary, in the amount of THB 808.61 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively.

(2) The increase in revenue from sales of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of THB 700.96 million due to the increase in Base Availability Credit in 2019 compared to that of 2018, as specified in the Power Purchase Agreement.

(3) Revenue from sales of RATCH Cogeneration Company Limited, a subsidiary, has been consolidated in the amount of THB 495.38 million after the acquisition on October 1, 2019.

## **2.2 Revenue from finance leases contracts**

Revenue from finance lease contracts for the year 2019 was THB 2,923.23 million, decreasing by THB 412.58 million or 12.4 percent from THB 3,335.81 million in the year 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

## **2.3 Cost of sales and rendering of services (excluding fuel costs)**

Cost of sales and rendering of services for year 2019 was THB 5,676.90 million (excluding fuel costs of THB 27,551.13 million), increasing by THB 809.62 million or 16.6 percent from cost of sales and rendering of services in the year 2018 of THB 4,867.28 million (excluding fuel costs of THB 30,302.81 million). The main reason was the cost of sales and rendering of services of RATCH Cogeneration Company Limited, a subsidiary, has been consolidated in the amount of THB 435.32 million after the acquisition on October 1, 2019. In addition, the cost of sales from RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of THB 409.87 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019, respectively.



## 2.4 Finance costs

Finance costs for the year 2019 were THB 1,430.22 million, increasing by THB 415.33 million or 40.9 percent from THB 1,014.89 million in the year 2018. The increase in finance cost of THB 400.58 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

## 2.5 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the year 2019 was THB 3,968.38 million, decreasing by THB 767.09 million or 16.2 percent from THB 4,735.47 million in the year 2018. The main reasons were as follows:

(1) The profit of Hongsa Power Company Limited, a joint venture, in a portion of 40 percent decreased in the amount of Baht 496.50 million. The main reason was that HPC generated electricity less than that in the same period of the previous year because of the earthquake in Laos on November 21, 2019.

(2) The loss of Xe-Pian Xe-Namnoy Power Company Limited, a joint venture, in a portion of 25 percent, increased by THB 266.56 million. The main reason was that during the year 2019, the loss on exchange rate was more than that in the previous year, in the amount of THB 161.85 million. Moreover, the increase in loss of THB 98.48 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

(3) The profit of SouthEast Asia Energy Limited, a joint venture in proportion of 33.33 percent, decreased in the amount of THB 217.96 million, mainly due to the lower electricity generation, compared to the previous year.

(4) The profit of Fareast Renewable Development Pte. Ltd. ("FRD"), a joint venture investing in Asahan-1 Hydroelectric Power Project in the Republic of Indonesia, in proportion of 50 percent, increased in the amount of THB 142.86 million. RH International (Singapore) Corporation Pte. Ltd., a subsidiary, has purchased ordinary shares of FRD in December 2018.

(5) The profit of Berkprai Cogeneration Company Limited, a joint venture in proportion of 35 percent, increased in the amount of THB 62.05 million. The main reason was the power plant has commenced commercial operation on June 1, 2019.

## **2.6 Gain on bargain purchase the shares of RATCH Cogeneration Company Limited**

On October 1, 2019, the company acquired 99.97 percent of the common and preferred shares of Navanakorn Electric Company Limited (The company's name was subsequently changed to "RATCH Cogeneration Company Limited") in the amount of THB 1,866.05 million and provided a long-term loan in the amount of THB 132.35 million with the fair value of the net assets in the amount of THB 2,268.32 million. As a result, the Company recognized gain on bargain purchase from such transaction in the amount of THB 269.92 million.

## **2.7 The effect of exchange rate of the Company and its subsidiaries**

In the year 2018 and 2019, the Company recorded loss on foreign exchange of THB 865.02 million and THB 132.48 million, respectively. The main reason was from loan to related parties in AUD currency. As AUD currency depreciated in relative to USD currency, the asset value in AUD currency decreased.

### 3. Analysis of statement of financial position

#### 3.1 Analysis of assets

As at December 31, 2019, the total assets were THB 100,229.43 million, decreasing by THB 1,022.47 million or 1.0 percent from THB 101,251.90 million as at December 31, 2018. The details were as follows:

	(Million Baht)			
	Dec 31, 2019	Dec 31, 2018	Increase (Decrease)	%
Current assets	20,479.77	23,160.90	(2,681.13)	(11.6)
Non-current assets	79,749.66	78,091.00	1,658.66	2.1
<b>Total Assets</b>	<b>100,229.43</b>	<b>101,251.90</b>	<b>(1,022.47)</b>	<b>(1.0)</b>

3.1.1 Cash and cash equivalents decreased in the amount of THB 6,778.09 million (the details are described in no.4). However, current investments increased in the amount of THB 2,222.76 million.

3.1.2 Financial lease receivables from related party decreased in the amount of THB 1,262.83 million.

3.1.3 Property, plant and equipment increased in the amount of THB 4,335.29 million. The main reason was the property, plant and equipment of the RATCH Cogeneration Company Limited have been consolidated in the amount of THB 4,580.16 million after the acquisition on October 1, 2019.

### 3.2 Analysis of liabilities and equity

As at December 31, 2019, the total liabilities and equity were THB 100,229.43 million, decreasing by THB 1,022.47 million or 1.0 percent from THB 101,251.90 million as at December 31, 2018. The details were as follows:

	(Million Baht)		
	Dec 31, 2019	Dec 31, 2018	Increase (Decrease)
			%
Liabilities	40,815.50	41,315.88	(500.38)
Equity	59,413.93	59,936.02	(522.09)
<b>Total Liabilities and Equity</b>	<b>100,229.43</b>	<b>101,251.90</b>	<b>(1,022.47)</b>

3.2.1 Liabilities decreased in the amount of THB 500.38 million, the main reasons were as follows:

(1) RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

(2) Debentures decreased in the total amount of THB 939.66 million due to the depreciation of USD currency in relative to THB currency.

(3) Long-term loans from financial institutions increased in the total amount of THB 2,791.64 million. The main reason was the long-term loans from financial institutions of the RATCH Cogeneration Company Limited have been consolidated in the amount of THB 3,581.83 million after the acquisition on October 1, 2019. However, long-term loans from financial institutions of RATCH-Australia Corporation Pty Ltd, a subsidiary, decreased in the total amount of THB 828.77 million. This was due to the depreciation of AUD and USD currencies in relative to THB currency.

(4) Short-term loan from financial institution increased in the amount of THB 603.08 million. The main reason was RH International (Singapore) Corporation Pte Ltd, a subsidiary, received a short-term loan from financial institution in the amount of USD 20 million.

3.2.2 Equity decreased in the amount of THB 522.09 million. The main reasons were as follows:

(1) The profit of the year 2019 in the amount of THB 5,963.28 million

(2) The dividend payment during the year 2019 decreased retained earnings in the amount of THB 3,480 million.

(3) Other components of equity decreased in the amount of THB 2,822.23 million. The main reasons were currency translation differences decrease equity in the amount of THB 1,246.56 million, change in fair value of the investment in EDL-Generation Public Company decreased equity in the amount of THB 520.44 million, share of other comprehensive income expense of associates and joint ventures decreased equity in the amount of THB 572.28 million, and the cash flow hedge reserve decreased equity in the amount of THB 476.42 million.

#### 4. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at December 31, 2019 were THB 4,917.16 million, decreasing by THB 6,778.09 million from THB 11,695.25 million on December 31, 2018. The details were summarized below:

	(Million Baht)
Net cash from operating activities	5,589.24
Net cash used in investing activities	(4,749.60)
Net cash used in financing activities	(7,434.14)
Effect of exchange rate changes on cash and cash equivalents	(183.59)
Net cash decrease during the year	<b>(6,778.09)</b>

4.1 Net cash from operating activities increased cash flow in the amount of THB 5,589.24 million. The reason was the operating result of the year 2019 improved cash position by THB 5,336.66 million, adjusting by the change in operating assets and liabilities in the amount of THB 252.58 million.

4.2 Net cash used in investing activities increased cash flow in the amount of THB 4,749.60 million. The main reasons were as follows:

4.2.1 The Company paid cash for current investments in the amount of Baht 2,162.29 million.

4.2.2 The Company purchased shares of Navanakorn Electric Company Limited (The company's name was subsequently changed to "RATCH Cogeneration Company Limited") on October 1, 2019. The Company paid for the shares in the amount of THB 1,866.05 million and provided a long-term loan in the amount of THB 132.35 million.

4.2.3 RATCH-Australia Corporation Pty Ltd, a subsidiary, paid for the construction of Collector Wind Farm Project in the amount of AUD 88.58 million.

4.2.4 RATCH-Australia Corporation Pty Ltd, a subsidiary, has purchased ordinary shares in Yandin WF Holding Pty Ltd and investment units in Yandin WF Holdings Unit Trust, in proportion of investment of 70 percent in the amount of AUD 53.31 million.

4.2.5 The Company received dividends from associates, joint ventures, and EDL-Generation Public Company in the total amount of THB 3,716.59 million.

4.3 Net cash used in financing activities decreased cash flow in the amount of THB 7,434.14 million. The main reasons were as follows:

4.3.1 RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

4.3.2 The Company paid dividend to owners in the amount of THB 3,479.78 million.

4.3.3 The Company paid for interest expenses in the amount of Baht 1,402.06 million.

**5. Significant financial ratios (excluded the effect of foreign exchange rate of the Company and subsidiaries)**

Ratios		2019	2018
1) Current Ratio	(Times)	2.70	2.22
2) Profit to Total Revenue (excluded fuel costs)	(%)	38.90	43.53
3) Return on Equity	(%)	10.21	10.79
4) Return on Assets	(%)	8.33	8.53
5) EBITDA *	(Million THB)	9,996	9,600
6) EBITDA to Total Assets	(%)	9.92	9.84
7) Debt to Equity Ratio	(Times)	0.69	0.69
8) Debt Service Coverage Ratio	(Times)	1.90	6.75
9) Book Value per Share	(THB)	40.97	41.34
* Not included the change in lease receivable (Million THB)		1,359.51	3,654.89