

RATCH



RATCHABURI
ELECTRICITY GENERATING
HOLDING PCL.

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Three-month and Nine-month Periods Ended 30 September, 2017



(Translation)

1. Significant events of the 3rd quarter of 2017

1.1 The Sale of Ordinary Shares of Oversea Green Energy Company Limited and RICI International Investment Pte. Limited

On August 25, 2017, Ratchaburi Energy Company Limited, a direct subsidiary, sold its entire ordinary shares totaling 1,260,000 shares or equivalent to 60 percent of the total shares in Oversea Green Energy Company Limited which invests in the project management service of Iwaki-Fukushima and Ueda Solar Power Projects in Japan to the existing shareholder in the amount of Baht 9.6 million.

On August 16, 2017, RH International (Singapore) Corporation Pte. Limited, an indirect subsidiary, sold its entire ordinary shares totaling 9,510,060 shares or equivalent to 60 percent of the total shares in RICI International Investment Pte. Limited, which is the developer of Iwaki-Fukushima and Ueda Solar Power Projects in Japan to the existing shareholder in the amount of USD 9.51 million.

The Company additionally received opportunity cost in the amount of Baht 10 million. Such sale of shares is a termination of joint investment for the development of Iwaki-Fukushima and Ueda Solar Power Projects with the Company's total attribution installed capacity of approximately 20.11 megawatts. This is done to avoid the impact from the Projects' development progress not achieve the Company's target.

2. Operation performance according to consolidated financial statement

For the three-month period (July 1, 2017 – September 30, 2017)

Unit : Million Baht

	Quarter 3		Increase (Decrease)	%
	2017	2016		
Revenue from sale and rendering of services (excluded Fuel Cost)	1,768.59	1,368.21	400.38	29.3
Revenue from financial leases	975.56	1,107.20	(131.64)	(11.9)
Share of profit of associate entities and joint ventures	960.35	534.33	426.02	79.7
Other incomes	273.62	251.70	21.92	8.7
Total revenues	3,978.12	3,261.44	716.68	22.0
Cost of sale and rendering of services (excluded Fuel Cost)	1,302.41	1,284.73	17.68	1.4
Administrative expenses	396.63	359.70	36.93	10.3
Finance costs	374.40	361.62	12.78	3.5
Income tax expense	262.60	180.84	81.76	45.2
Total expenses	2,336.04	2,186.89	149.15	6.8
	1,642.08	1,074.55	567.53	52.8
Non-controlling Interests	18.34	23.30	(4.96)	(21.3)
Profit Attributable to Owner of the Company before exchange rate	1,660.42	1,097.85	562.57	51.2
Gain (loss) on exchange rate	200.65	(256.34)	456.99	178.3
Profit Attributable to Owner of the Company	1,861.07	841.51	1,019.56	121.2
Earnings per share (Baht)	1.28	0.58		
<i>Fuel Cost</i>	<i>8,339.72</i>	<i>8,622.55</i>		

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 3rd quarter of 2017 showed the profit of Baht 1,861.07 million or Baht 1.28 per share, compared to the profit of Baht 841.51 million or Baht 0.58 per share of the 3rd quarter of 2016, which showed an increase in profit of Baht 1,019.56 million, or 121.2 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 3rd quarter of 2017 was Baht 960.35 million, increasing by Baht 426.02 million or 79.7 percent from Baht 534.33 million in the 3rd quarter of 2016. The main reasons were, the profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 453.78 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 percent increased in the amount of Baht 9.32 million, since Hongsa Power Plants generated electricity more than the same period of the previous year.

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

Revenue from sale and rendering of services (excluding fuel costs of Baht 8,339.72 million) for the 3rd quarter of 2017 was Baht 1,768.59 million, increasing by Baht 400.38 million or 29.3 percent from revenue from sale and rendering of services (excluding fuel costs of Baht 8,622.55 million) of Baht 1,368.21 million in the 3rd quarter of 2016. The main reason was the increase in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 322.82 million due to the increase in Base Availability Credit in 2017 comparing to 2016, as specified in the Power Purchase Agreement.

2.3 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 3rd quarter of 2017 was Baht 975.56 million, decreasing by Baht 131.64 million or 11.9 percent from Baht 1,107.20 million in the 3rd quarter of 2016. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

2.4 Income Tax Expense

Income tax expense in the 3rd quarter of 2017 was Baht 262.60 million, increasing by Baht 81.76 million or 45.2 percent from Baht 180.84 million in the 3rd quarter of 2016. The main reason was the increase in tax profit of Ratchaburi Electricity Generating Company Limited, in the 3rd quarter of 2017, in the amount of Baht 66.13 million.

3. Operation performance according to consolidated financial statement

For the nine-month period (Jan 1, 2017 – September 30, 2017)

Unit : Million Baht

	Quarter 1-3		Increase (Decrease)	%
	2017	2016		
Revenue from sale and rendering of services (excluded Fuel Cost)	5,267.90	4,789.92	477.98	10.0
Revenue from financial leases	3,053.43	3,416.43	(363.00)	(10.6)
Share of profit of associate entities and joint ventures	2,870.43	1,770.60	1,099.83	62.1
Other incomes	745.23	670.08	75.15	11.2
Total revenues	11,936.99	10,647.03	1,289.96	12.1
Cost of sale and rendering of services (excluded Fuel Cost)	3,973.53	3,683.48	290.05	7.9
Administrative expenses	1,222.06	1,071.25	150.81	14.1
Finance costs	1,144.40	1,041.04	103.36	9.9
Income tax expense	742.91	707.64	35.27	5.0
Total expenses	7,082.90	6,503.41	579.49	8.9
	4,854.09	4,143.62	710.47	17.1
Non-controlling Interests	84.74	70.34	14.40	20.5
Profit Attributable to Owner of the Company before exchange rate	4,938.83	4,213.96	724.87	17.2
Gain (loss) on exchange rate	481.67	(1,012.07)	1,493.74	147.6
Profit Attributable to Owner of the Company	5,420.50	3,201.89	2,218.61	69.3
Earnings per share (Baht)	3.74	2.21		

Fuel Cost **23,504.83** **28,635.68**

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the nine-month period of the year 2017 showed the profit of Baht 5,420.50 million or Baht 3.74 per share, compared to the profit of Baht 3,201.89 million or Baht 2.21 per share of the nine-month period of the year 2016, which showed an increase in profit of Baht 2,218.61 million, or 69.3 percent. The significant transactions were as follows:-

3.1 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the nine-month period of the year 2017 was Baht 2,870.43 million, increasing by Baht 1,099.83 million or 62.1 percent from Baht 1,170.60 million in the nine-month period of the year 2016. The main reasons were as follows:-

3.1.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 1,271.38 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 percent increased in the amount of Baht 40.54 million, since Hongsa Power Plants generated electricity more than the same period of the previous year. In addition, Hongsa Power Plants commenced its commercial operation for 3 units on September 2, 2015, November 2, 2015, and March 2, 2016, respectively.

3.1.2 The profit of Navanakorn Electricity Generating Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 95.27 million since the power plant has commenced commercial operation on September 3, 2016.

3.1.3 The loss of Xe-Pian Xe-Namnoy Power Company Limited, an under construction joint venture, in a portion of 25 percent, decreased in the amount of Baht 116.13 million due to loss on exchange rate in the amount of Baht 100.89 million.

3.1.4 The profit of Ratchaburi Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 110.09 million. The main reason was the decrease in revenue from finance lease contracts in the amount of Baht 88.97 million, in accordance with the Effective Interest Method.

3.1.5 The operation result of SouthEast Asia Energy Limited, a joint venture, in a portion of 33.33 percent, decreased in the amount of Baht 72.12 million. The main reason was the decrease in water level of Nam Ngum 2 Dam during the nine-month period of the year 2017, compared with that of the same period of the previous year, resulted in the decrease in electricity generation.

3.2 Revenue from Sales and Rendering of Services (excluding fuel costs)

Revenue from sale and rendering of services (excluding fuel costs of Baht 23,504.83 million) for the nine-month period of 2017 was Baht 5,267.90 million, increasing by Baht 477.78 million or 10.0 percent from revenue from sale and rendering of services (excluding fuel costs of Baht 28,635.68 million) of Baht 4,789.92 million for the nine-month period of 2016. The main reason was the increase in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 658.85 million due to the increase in Base Availability Credit in 2017 comparing to 2016, as specified in the Power Purchase Agreement. In addition, revenue from operation and maintenance services of RATCH-Lao Services Company Limited, a subsidiary, decreased by Baht 191.12 million since it has transferred its rights to operate and maintain Nam Ngum 2 Hydroelectric Power Plant in April 2016, in exchange for Baht 134.71 million.

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

In the nine-month period of the year 2017, the Company recorded gain on exchange rate of Baht 481.67 million mainly due to the appreciation of the AUD Currency in the nine-month period of the year 2017, which resulted in the increase of net asset value in AUD Currency. Conversely, the loss on exchange rate in the nine-month period of the year 2016 was Baht 1,012.07 million due to significant appreciation of the JPY Currency during the nine-month period of the year 2016 resulted in loss on exchange rate of JPY bond.

3.4 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the nine-month period of the year 2017 was Baht 3,053.43 million, decreasing by Baht 363.00 million from 3,416.43 million or 10.6 percent in the nine-month period of the year 2016. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

3.5 Cost of sale and rendering of services (excluding fuel costs)

Cost of sale and rendering of services (excluding fuel costs of Baht 23,504.83 million) for the nine-month period of the year 2017 was Baht 3,973.53 million, increasing by Baht 290.05 million, or 7.9 percent from revenue from Sale and rendering of services (excluding fuel costs of Baht 28,635.68 million) Baht 3,683.48 million in the nine-month period of the year 2016. The main reason was from the increase in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 283.88 million, since the shutdowns for planned maintenance during the nine-month period of the year 2017 was more than those of the same period of the previous year. Additionally, the Company had gain from provision of diesel oil in the amount of Baht 38.97 million in the nine-month period of the year 2017; while the Company had gain from provision of diesel oil in the amount of Baht 170.55 million in the same period of the previous year.

4. Analysis of Statements of Financial Position

4.1 Analysis of Assets

As at September 30, 2017, the total assets were Baht 95,696.29 million, decreasing by Baht 694.80 million or 0.7 percent from Baht 96,391.09 million as at December 31, 2016. The details were as follows:

(Million Baht)

	Sep 30, 2017	Dec 31, 2016	Increase (Decrease)	%
Current assets	25,681.99	26,303.02	(621.03)	(2.4)
Non-current assets	70,014.30	70,088.07	(73.77)	(0.1)
Total Assets	95,696.29	96,391.09	(694.80)	(0.7)

4.1.1 Financial lease receivables from related party decreased in the amount of Baht 2,808.20 million.

4.1.2 Cash and cash equivalents increased in the amount of Baht 1,103.24 million. The details are described in no.5. On the other hand, current investments decreased in the amount of Baht 2,632.63 million.

4.1.3 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Company, Limited, a subsidiary, increased in the amount of Baht 438.10 million since the electricity sale in August and September of 2017 were higher than the electricity sale of November and December of 2016.

4.1.4 The Company had invested in the MRT Pink Line Project and the MRT Yellow Line Project in the total amount of Baht 700 Million.

4.1.5 Assets of Mount Emerald Wind Farm Project and Collinsville Solar Power Project; projects of RATCH-Australia Corporation Limited, a subsidiary located in Australia, had increased in the total amount of AUD 77.50 million.

4.1.6 RH International (Singapore) Corporation Pte. Limited, an indirect subsidiary, made an advance payment for share subscription in the amount of USD 20.83 million (As at September 30, 2017, equivalent to Baht 694.90 million) to PT Medco Ratch Power Riau, an indirect joint venture, to develop the Riau Combined-Cycle Power Plant Project in the Republic of Indonesia in order to open the Project Development Cost Account as stipulated in the Power Purchase Agreement.

4.2 Analysis of Liabilities

As at September 30, 2017, total liabilities were Baht 32,527.65 million, decreasing by Baht 1,410.67 million or 4.2 percent from Baht 33,938.32 million as at December 31, 2016. The details were as follows:

(Million Baht)

	Sep 30, 2017	Dec 31, 2016	Increase (Decrease)	%
Current Liabilities	11,573.53	10,867.76	705.77	6.5
Non-Current Liabilities	20,954.12	23,070.56	(2,116.44)	(9.2)
Liabilities	32,527.65	33,938.32	(1,410.67)	(4.2)

4.2.1 The Company made a repayment for its short-term loan from financial institution during the period, in the amount of Baht 2,500 million.

4.2.2 RATCH-Australia Corporation Limited, a subsidiary, received a long-term loan from financial institution during the period in the amount of AUD 46.39 million.

4.3 Analysis of Equity

As at September 30, 2017, equity was Baht 63,168.64 million, increasing by Baht 715.87 million or 1.1 percent from Baht 62,452.77 million as at December 31, 2016. The main reasons were as follows:

4.3.1 The profit of the nine-month period of the year 2017 in the amount of Baht 5,420.50 million

4.3.2 The dividend payment during the nine-month period of the year 2017 decreased retained earnings in the amount of Baht 3,480.00 million.

4.3.3 Other components of equity decreased in the amount of Baht 1,144.07 million. The main reason was, currency translation differences decreased the equity in the amount of Baht 937.61 million; in addition, fair value changes in investment in EDL-Generation Public Company decreased the equity in the amount of Baht 206.94 million.

4.3.4 Non-controlling interests decreased by Baht 80.56 million.

5. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at September 30, 2017 were Baht 10,522.45 million, increasing by Baht 1,103.24 million from Baht 9,419.21 million on December 31, 2016. The details were summarized below:

	(Million Baht)
Net cash from operating activities	6,725.03
Net cash from investing activities	471.73
Net cash used in financing activities	(5,816.78)
Effect of exchange rate changes on balances held in foreign currencies	(276.74)
Net cash decrease during the period	<u><u>1,103.24</u></u>

5.1 Net cash from operating activities increased cash flow in the amount of Baht 6,725.03 million. The reason was the operating result of the nine-month period of the year 2017 increased cash in the amount of Baht 4,563.28 million. In addition, the change in operating assets and liabilities increased cash in the amount of Baht 2,161.75 million.

5.2 Net cash from investing activities increased cash flow in the amount of Baht 471.73 million. The main reasons were as follow:-

5.2.1 The Company received cash from current investments in the amount of Baht 2,665.50 million.

5.2.2 The Company received dividends from associates and joint ventures in the total amount of Baht 2,133.71 million.

5.2.3 RATCH-Australia Corporation Limited, a subsidiary, invested in Mount Emerald Wind Farm Project and Collinsville Solar Power Project in Australia in the total amount of AUD 77.50 million.

5.2.4 The Company additionally invested in Xe-Pian Xe-Namnoy Power Company Limited and Berkprai Cogeneration Company Limited in the total amount of Baht 746.87 million. In addition, the Company invested in the MRT Pink Line Project and the MRT Yellow Line Project in the total amount of Baht 700 million.

5.2.5 RH International (Singapore) Corporation Pte. Limited, an indirect subsidiary, made an advance payment for shares subscription in the amount of USD 20.83 million (equivalent to Baht 708.03 million) to PT Medco Ratch Power Riau, an indirect joint venture, to develop the Riau Combined-Cycle Power Plant Project in the Republic of Indonesia.

5. Net cash used in financing activities decreased cash flow in the amount of Baht 5,816.78 million. The main reasons were as follow:-

5.3.1 The dividend payment to shareholders during the period in the amount of Baht 3,476.92 million.

5.3.2 The Company made a short-term loan repayment during the period in the amount of Baht 2,500 million.

5.3.3 The Company paid for interest expenses in the amount of Baht 1,052.13 million.

5.3.4 RATCH-Australia Corporation Limited, a subsidiary, received long-term loan from financial institution in the amount of AUD 46.39 million (equivalent to baht 1,213.33 million).

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

Ratios		Quarter 3	
		2017	2016
1) Current Ratio	(Times)	2.22	2.06
2) Profit to Total Revenue (excluded fuel costs)	(%)	41.28	32.95
3) Return on Equity **	(%)	10.94	9.81
4) Return on Assets **	(%)	7.06	6.26
5) EBITDA *	(Million Baht)	2,517	1,991
6) EBITDA to Total Assets	(%)	2.61	2.13
7) Debt to Equity Ratio	(Times)	0.51	0.53
8) Debt Service Coverage Ratio	(Times)	6.09	5.18
9) Book Value per Share	(Baht)	43.53	41.34
* Not included the change in lease receivable	(Million Baht)	891.85	878.90

** Data for 12-month period