

Management's discussion and analysis of financial condition and results of unreviewed Financial Statements

Fiscal Year 2017 comparing to Fiscal Year 2016

Starting 2014, Thai accounting standard has adopted international accounting standard related to Financial Lease. The only generating unit of Glow Group affected from this change in accounting standard is Glow IPP, 713 MW gas-fired IPP. Implication of Financial Lease accounting standard included, but not limited to, the following key aspects:

- Recording Availability Payment received from EGAT as Financial Lease Income and amortization of Lease Receivables
- Recording of Lease Receivables, rather than Property Plant and Equipment as per old standard, and hence no recording of depreciation expense

However, Energy Payment, gas cost, and other operating costs are recorded essentially with the same method.

For 2017, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -1,095.0 million) and depreciation (Baht +340.3 million) of Baht -754.7 million
- Net adjustment to include Financial Lease Income of Baht +567.3 million
- Net adjustment on Deferred Tax of Baht +37.5 million

Revenues

Total revenue and other incomes that ended December 31, 2017, were Baht 52,537.3 million in 2017, a 1.0 per cent decrease from Baht 53,092.1 million in 2016. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 2,676.3 million in 2017, a decrease of 20.4 per cent from Baht 3,362.5 million in 2016. The important drivers of the decrease were lower energy payment which decreased Baht 361.7 million from Baht 1,334.7 million to Baht 972.9 million due to lower power dispatch to EGAT which decreased from 250.5 GWh to 34.2 GWh and the decrease in availability payment by Baht 324.5 million from Baht 2,027.9 million to Baht 1,703.4 million resulted from lower availability payment rate.

However, with the adoption of Financial Lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income accounted for Baht 567.3 million and revenue from sales accounted for Baht 1,581.3 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 11,109.0 million in 2017, a decrease of 5.2 per cent from Baht 11,722.4 million in 2016. These decreases were mainly due to lower energy payment rate as a result of new coal supply agreement starting in July 2016. Moreover, scheduled maintenance during 1st January to 5th February led to lower power dispatch to EGAT by 4.0 per cent from 5,232.1 GWh to 5,020.6 GWh.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 718.5 million in 2017, a 0.9 per cent slight increase from Baht 712.0 million in the same period prior year. These increases were mainly due to a 3.8 per cent increase in volume dispatch to EGAT from 380.4 GWh to 394.9 GWh.
- Sales of electricity to EGAT under SPP scheme decreased 9.1 per cent from Baht 15,125.7 million to Baht 13,747.7 million in 2017. These declines were primarily due to (i) lower energy payment as the results of lower power dispatch to EGAT by 6.5 per cent due to the expiration of two PPAs of SPP Phase 2 in 2017 which was extended under SPP extension scheme and (ii) lower gas price by 2.5 per cent in spite of higher coal price by 30.4 per cent.
- Sales of electricity to industrial customers increased 4.6 per cent to Baht 15,722.9 million in 2017. These increases were mainly due to higher electricity sold to industrial customers by 5.5 per cent despite lower electricity tariff rate charged to ICs by 0.8 per cent.
- Sales of steam to industrial customers increased 0.8 per cent to Baht 6,984.7 million. These increases were mostly due to a 3.4 per cent higher in sale volume, while selling price decreased by 2.5 per cent as a result of lower gas price.
- Sales of other products and services were Baht 447.2 million in 2017 as compared of Baht 454.4 million in the same period of the prior year.
- Other incomes were Baht 1,658.8 million in 2017, an increase of Baht 1,133.9 million, as there was a booking of business interruption claim of GHECO-One of Baht 291.9 million in the first half of 2017, while there were the exchange gain of Baht 83.6 million and Baht 950.1 million in 2016 and 2017, respectively.

Costs of sales

Cost of goods sold was Baht 37,720.8 million in 2017, a decrease of 2.0 per cent from Baht 38,479.1 million compared to the prior year. The decrease was attributable to the following main factors:

Fuel Costs

- Gas cost of IPP business decreased from Baht 1,232.8 million to Baht 959.0 million. The decrease in IPP gas cost was mainly attributable to lower gas consumption.
- Gas cost of Cogen business declined 3.8 per cent to Baht 19,501.9 million. This decrease was due to lower gas price and lower gas consumption.
- Coal cost of IPP business decreased 9.1 per cent to Baht 4,652.7 million. The decrease was mainly because of lower coal consumption due to scheduled maintenance of GHECO-One.
- Coal cost of Cogen business increased 23.2 per cent to Baht 2,988.2 million. This increase was due predominantly to higher average coal price.

Maintenance Costs

- Maintenance cost of IPP business increased by Baht 41.6 million from Baht 697.8 million to Baht 739.5 million. This increase was due to scheduled maintenance of GHECO-One in the first quarter of 2017.
- Maintenance cost of Cogen business decreased by 8.0 per cent from Baht 1,461.1 million to Baht 1,344.6 million because cogeneration facilities unit had less maintenance in 2017 as compared to in 2016.

Selling and administrative expenses

Selling and administrative expenses were Baht 846.5 million in 2017, a decrease of 11.3 per cent or equivalent to Baht 107.9 million from Baht 954.5 million in 2016.

Finance costs

Finance costs consisting of interest expenses and financial fees were Baht 2,379.5 million in 2017, a decrease of 8.4 per cent from Baht 2,599.1 million in 2016 mainly as a result of the reduction in outstanding interest-bearing debt.

Income Tax Expenses

Income Tax Expenses are comprised of 2 parts: (a) Current Income Tax Expenses and (b) Net Change in Deferred Tax Asset/Liability (or Net Deferred Tax Revenues/Expenses).

(a) Current Income Tax Expenses

Current income tax expenses in 2017 were Baht 920.8 million, an increase of 1.0 per cent or equivalent to Baht 9.0 million from Baht 911.8 million in 2016. The majority of the increases in current income tax expenses were mainly due to the increase in taxable income.

(b) Net Change in Deferred Tax Asset/Liability (or Deferred Tax Revenues/Expenses)

There was the booking of net change in Deferred Tax Liability (Deferred Tax Expenses) of Baht 54.4 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 37.5 million in 2017, whereas net change in Deferred Tax Liability (Deferred Tax Expenses) of Baht 69.8 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 85.5 million, was recorded in 2016.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,109.6 million and Baht 1,526.2 million in 2016 and 2017, respectively.

Net Profit

Net profit was Baht 9,075.9 million in 2017, an increase of 1.4 per cent from Baht 8,953.1 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 9,278.1 million and Baht 9,218.4 million in 2016 and 2017, respectively.

Net Exchange Gain /Loss

There was a net exchange gain of Baht 83.6 million and Baht 950.1 million in 2016 and 2017, respectively. Volatility in gain or loss from currency exchange rates is mainly derived from the US dollar-denominated debt.

Normalized Net Profit¹

Normalized net profit, excluding the adjustment of financial lease accounting of GIPP, the net foreign exchange gain of Baht 623.3² million, and the deferred tax expenses of Baht 93.1³ million, was Baht 8,709.5 million in 2017, a decrease of 7.3 per cent from Baht 9,391.2 million in 2016. This normalized net profit is the basis used to determine our dividend distribution.

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Mr. Pajongwit Pongsivapai
Chief Finance Officer and Executive Vice President

¹ Definition of Normalized Net Profit is amended to 'Net Profit excluding net exchange gain or loss and net change in deferred tax assets or liabilities'.

² Excluded foreign exchange gain/ loss attributed to minority shareholders in subsidiaries.

³ Excluded deferred tax expenses attributed to minority shareholders in subsidiaries.