

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

Year to date 2015 compared to Year to date 2014

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, 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 the first half of 2015, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -956.6 million) and depreciation (Baht +167.9 million) of Baht -788.7 million
- Net adjustment to include Financial Lease income of Baht +396.8 million
- Net adjustment on Deferred Tax of Baht +72.8 million

Revenues

Total revenue, including other incomes, was Baht 33,130.1 million in the first half of 2015, a 13.4 per cent decrease from Baht 38,275.0 million in the same period of previous year. The decrease was attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, during the first half of 2015, accounted for Baht 4,492.6 million, a 41.5 per cent decrease from Baht 7,685.0 million compared to the same period of previous year. The important drivers of decreasing were lower power dispatch to EGAT, a decrease of 47.4 per cent from 2,563 GWh to 1,348 GWh for the first half of 2014 and 2015, respectively, while availability is only slightly lower. During the first half 2015, Thai Baht had depreciated which have positive effect on USD-linked revenue.

However, with the adoption of Financial lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income amounted of Baht 396.8 million and revenue from sales amounted of Baht 3,536.0 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, amounted to Baht 6,176.6 million in the first half of 2015, a decline of 20.7 per cent from Baht 7,785.6 million compared to the same period in 2014. Those declines were mainly due to major maintenance performed during the first quarter (during 1st January until early February 2015), resulting in both lower availability payment and lower power dispatch to EGAT.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 509.7 million in the first half of 2015, a 14.9 per cent decrease from Baht 598.7 million in the same period of previous year. Those decreases were mainly due to 16.4 per cent decrease in volume dispatch to EGAT and EDL from 346 GWh to 289 GWh.
- Sales of electricity to EGAT under SPP scheme declined 3.6 per cent to Baht 8,765.6 million. Those declines during the first half of 2015 were primarily due to lower energy payment as a result of the lower gas price by 5.0 per cent, whereas power dispatch to EGAT was higher by 3.4 per cent.
- Sales of electricity to industrial customers decreased 3.5 per cent to Baht 8,438.6 million when compared to the same period in the prior year. Those decreases were mainly due to lower sale volume by 2.0 per cent and lower electricity tariff by 1.6 per cent.
- Sales of steam to industrial customers decreased 4.9 per cent to Baht 3,972.4 million. Those decreases were mostly due to a 4.2 per cent lower in sale price, as a result of lower gas price.
- Sales of other products and services increased 3.4 per cent to Baht 234.3 million. Those increases were attributable to increase in both sale volume and sale price.
- For the first half of 2015, other incomes were Baht 1,100.2 million, increased by Baht 668.4 million. There were a booking of compensation of GHECO-One delayed completion of Baht 729.8 million and a business interruption claim of CFB3 of Baht 316.6 million booked in this period, while there was net exchange gain of Baht 205.5 million booked as other incomes in the first half of 2014.

Costs of sales

Cost of goods sold was Baht 25,052.7 million in the first half of 2015, a decrease of 14.9 per cent from Baht 29,437.2 million compared to the same period prior year. The decrease was attributable to the following main factors:

Fuel Cost

- Gas cost of IPP business decreased 47.0 per cent to Baht 3,064.5 million. The majority of the decrease in gas cost of GIPP was attributable to lower gas consumption as a result of lower power dispatch to EGAT.
- Gas cost of Cogen business declined 5.9 per cent to Baht 13,028.3 million. This decrease was mainly due to lower gas price.

- Coal cost of IPP business decreased 30.0 per cent to Baht 2,575.7 million. This decrease was primarily due to lower coal price during the first half. Additionally, major maintenance of GHECO-One in the first quarter of 2015 led to lower coal consumption.
- Coal cost of Cogen business decreased 15.6 per cent to Baht 1,256.3 million. This decrease was due predominantly to lower average coal price.

Maintenance Cost

- Maintenance cost of IPP business rose Baht 408.0 million to Baht 534.0 million. This increase was mostly due to scheduled major maintenance of GHECO-One.
- Maintenance cost of Cogen business increased 18.3 per cent to Baht 764.0 million resulting from some cogeneration facilities unit had schedule major maintenance during the first half of this year.

Selling and administrative expenses

Selling and administrative expenses during the first half of 2015 were Baht 332.7 million, a decrease of 6.6 per cent or Baht 23.7 million from Baht 356.4 million as compared to the same period prior year.

Finance costs

Finance costs consisting of interest expenses and financial fee in the first half of 2015 were Baht 1,558.8 million, a decrease of 9.2 per cent from Baht 1,717.2 million in the same period of 2014 as a result of lower outstanding interest-bearing debt.

Income Tax Expenses

Income Tax Expenses is 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 the first half of 2015 were Baht 662.7 million, an increase of Baht 16.6 million or 2.6 per cent from Baht 646.1 million, as compared to the same period of 2014. The majority of the increases in current income tax expenses were mainly due to special income during this period.

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

There is a booking of net change in Deferred Tax Asset (Deferred Tax Revenue) of Baht 41.1 million and Baht 9.8 million in the first half of 2014 and 2015, respectively. Furthermore, net change in Deferred Tax Asset (Deferred Tax Revenue), including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 93.8 million and Baht 72.8 million during the first half of 2014 and 2015, respectively.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,044.9 million and Baht 736.0 million in the first half of 2014 and 2015, respectively.

Net Profit

Net profit for the first half of 2015 was Baht 4,478.5 million, a decrease of 12.4 per cent from Baht 5,110.8 million in the same period of previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 4,781.7 million in the first half of 2015

Net Exchange Gain /Loss

In the first half of 2015, there was a net exchange loss of Baht 315.4 million, whereas there was a net exchange gain of Baht 205.5 million in the same period of 2014. Volatility in gain or loss from currency exchange rates is derived from the US dollar-denominated debt.

Normalized Net Profit¹

In the first half of 2015, normalized net profit, excluding the adjustment of financial lease accounting of GIPP, was Baht 5,073.1 million, which was net income excluding Baht 231.3² million of net foreign exchange loss and deferred tax expenses of Baht 62.5 million, a decrease of 2.6 per cent from Baht 5,208.3 million in the first half of 2014. This normalized net profit is the basis used to determine our dividend distribution.

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.

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