

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

First 9 months of 2015 compared to First 9 months of 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 9 months of 2015, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -1,413.5 million) and depreciation (Baht +251.8 million) of Baht -1,161.7 million
- Net adjustment to include Financial Lease income of Baht +595.1 million
- Net adjustment on Deferred Tax of Baht +107.7 million

Revenues

Total revenue and other incomes that ended September 30, 2015, were Baht 50,736.7 million in the first 9 months of 2015, a 9.5 per cent decrease from Baht 56,064.8 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 9 months of 2015, accounted for Baht 7,409.7 million, a 28.1 per cent decrease from Baht 10,301.4 million compared to the same period of previous year. The important drivers of decreasing were lower power dispatch to EGAT, a decrease of 30.1 per cent from 3,359 GWh to 2,348 GWh for the first 9 months of 2014 and 2015, respectively and lower availability payment rate, even though Thai Baht had depreciated which had positive effect on USD-linked revenue during the first 9 months of 2015.

However, with the adoption of Financial lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income accounted for Baht 595.1 million and revenue from sales accounted for Baht 5,996.2 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, amounted to Baht 9,933.5 million in the first 9 months of 2015, a decline of 13.7 per cent from Baht 11,513.9 million compared to the same period in 2014. These 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 606.8 million in the first 9 months of 2015, a 24.3 per cent decrease from Baht 801.2 million in the same period of previous year. These decreases were mainly due to a 27.5 per cent decrease in volume dispatch to EGAT and EDL from 465 GWh to 337 GWh.
- Sales of electricity to EGAT under SPP scheme declined 2.2 per cent to Baht 13,335.4 million. These declines during the first 9 months of 2015 were primarily due to lower energy payment as a result of the lower gas price by 4.8 per cent despite higher power dispatch to EGAT by 3.2 per cent and favorable impact on Capacity Payment from Thai Baht depreciation.
- Sales of electricity to industrial customers decreased 4.2 per cent to Baht 12,803.6 million when compared to the same period in the prior year. These decreases were mainly due to lower electricity tariff by 3.0 per cent relative to a decrease in PEA Ft (0.10 Baht/kWh in Jan., 0.10 Baht/kWh in May and 0.03 Baht/kWh in Sep.) and lower sale volume by 1.3 per cent.
- Sales of steam to industrial customers decreased 5.6 per cent to Baht 5,990.0 million. These decreases were mostly due to a 4.9 per cent lower in selling price, as a result of lower gas price, while sale volume decreased merely 1 per cent.
- Sales of other products and services increased 1.7 per cent to Baht 353.0 million thanks to an increase in selling price.
- For the first 9 months of 2015, other incomes were Baht 1,123.2 million, increased by Baht 622.8 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 the first 9 months of 2015, while there were business interruption claim of GHECO-One of Baht 98.9 and net exchange gain of Baht 252.1 million booked as other incomes in the first 9 months of 2014.

Costs of sales

Cost of goods sold was Baht 38,313.0 million in the first 9 months of 2015, a decrease of 11.4 per cent from Baht 43,257.2 million compared to the same period prior year. The decrease was attributable to the following main factors:

Fuel Cost

- Gas cost of IPP business massively decreased 31.6 per cent to Baht 5,218.9 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 19,630.3 million. This decrease was mainly due to lower gas price.
- Coal cost of IPP business decreased 24.0 per cent to Baht 4,127.8 million. This decrease was primarily due to lower coal price during the first 9 months. Additionally, the major maintenance of GHECO-One in the first quarter of 2015 led to lower coal consumption.
- Coal cost of Cogen business decreased 12.1 per cent to Baht 1,919.5 million. This decrease was due predominantly to lower average coal price.

Maintenance Cost

- Maintenance cost of IPP business rose Baht 353.8 million to Baht 615.9 million. This increase was mostly due to scheduled major maintenance of GHECO-One.
- Maintenance cost of Cogen business increased 12.9 per cent to Baht 1,144.5 million resulting from some cogeneration facilities unit had schedule major maintenance during the first 9 months of this year.

Selling and administrative expenses

Selling and administrative expenses during the first 9 months of 2015 were Baht 502.0 million, a decrease of 6.0 per cent or Baht 31.9 million from Baht 533.9 million as compared to the same period prior year.

Finance costs

Finance costs consisting of interest expenses and financial fee in the first 9 months of 2015 were Baht 2,297.0 million, a decrease of 10.1 per cent from Baht 2,554.2 million in the same period of 2014 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 the first 9 months of 2015 were Baht 903.4 million, an increase of 2.0 per cent or equivalent to Baht 17.7 million from Baht 885.7 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 71.2 million and Baht 3.0 million in the first 9 months 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 140.7 million and Baht 107.7 million during the first 9 months of 2014 and 2015, respectively.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,472.6 million and Baht 929.6 million in the first 9 months of 2014 and 2015, respectively.

Net Profit

Net profit for the first 9 months of 2015 was Baht 6,461.4 million, a decrease of 13.0 per cent from Baht 7,427.6 million in the same period of previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 6,897.4 million in the first 9 months of 2015

Net Exchange Gain /Loss

In the first 9 months of 2015, there was a net exchange loss of Baht 1,326.6 million, whereas there was a net exchange gain of Baht 252.1 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 9 months of 2015, normalized net profit, excluding the adjustment of financial lease accounting of GIPP, was Baht 7,934.3 million, which was net income excluding Baht 935.9² million of net foreign exchange loss and deferred tax expenses of Baht 103.6 million, an increase of 3.7 per cent from Baht 7,650.0 million in the first 9 months 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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