

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

Fiscal Year 2015 compared to Fiscal Year 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 2015, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -1,749.6 million) and depreciation (Baht +335.7 million) of Baht -1,413.9 million
- Net adjustment to include Financial Lease Income of Baht +793.5 million
- Net adjustment on Deferred Tax of Baht +118.5 million

Revenues

Total revenue and other incomes that ended December 31, 2015, were Baht 65,369.3 million in 2015, a 10.8 per cent decrease from Baht 73,323.7 million in 2014. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 8,381.1 million in 2015, a 36.5 per cent decrease from Baht 13,193.1 million in 2014. The important drivers of decreasing were lower availability payment and lower energy payment. The decrease in availability payment of Baht 464.1 million from Baht 2,763.0 million to 2,298.9 million resulted from lower availability payment rate, and planned outage for major maintenance during 7th November until 23rd December 2015, even though Thai Baht had depreciated which had positive effect on USD-linked revenue, while energy payment decreased by Baht 4,347.8 million from Baht 10,430.1 million to Baht 6,082.2 million due to lower power dispatch to EGAT which decreased by 42.3 per cent from 4,316 GWh to 2,492 GWh for 2014 and 2015, respectively and lower gas price.

However, with the adoption of Financial Lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income accounted for Baht 793.5 million and revenue from sales accounted for Baht 6,631.5 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 13,422.5 million in 2015, a decline of 10.6 per cent from Baht 15,021.9 million 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 714.0 million in 2015, a 32.4 per cent decrease from Baht 1,056.4 million in 2014. These decreases were mainly due to a 36.3 per cent decrease in volume dispatch to EGAT from 609 GWh to 388 GWh.
- Sales of electricity to EGAT under SPP scheme declined 4.4 per cent to Baht 17,451.5 million in 2015. These declines were primarily due to lower energy payment as a result of the lower gas price by 6.6 per cent despite higher power dispatch to EGAT by 1.6 per cent and favorable impact on capacity payment from Thai Baht depreciation.
- Sales of electricity to industrial customers decreased 4.3 per cent to Baht 16,827.6 million in 2015. These decreases were mainly due to lower electricity tariff by 4.0 per cent relative to a decrease in PEA Ft (0.10 Baht/kWh in Jan., 0.10 Baht/kWh in May, 0.03 Baht/kWh in Sep., and 0.01 Baht/kWh in Nov.) and lower sale volume by 0.4 per cent.
- Sales of steam to industrial customers decreased 5.2 per cent to Baht 7,921.1 million. These decreases were mostly due to a 6.2 per cent lower in selling price as a result of lower gas price, while sale volume increased slightly by 1 per cent.
- Sales of other products and services were Baht 463.1 million while accounted for 463.3 million as compared to the year before.
- Other incomes were Baht 1,144.4 million in 2015, increased by Baht 811.6 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 2015, while there was a business interruption claim of GHECO-One of Baht 98.9 million booked as other incomes in 2014.

Costs of sales

Cost of goods sold was Baht 49,370.9 million in 2015, a decrease of 13.8 per cent from Baht 57,255.9 million compared to the prior year. The decrease was attributable to the following main factors:

Fuel Cost

- Gas cost of IPP business massively decreased 42.6 per cent to Baht 5,635.1 million. The majorities of the decrease in gas cost of GIPP were attributable to lower gas consumption as a result of lower power dispatch to EGAT and planned outage performed in during 7th November until 23rd December 2015.
- Gas cost of Cogen business declined 7.9 per cent to Baht 25,288.3 million. This decrease was mainly due to lower gas price.

- Coal cost of IPP business decreased 22.2 per cent to Baht 5,615.2 million. This decrease was primarily due to lower coal price during 2015. Additionally, the major maintenance of GHECO-One in the first quarter of 2015 led to lower coal consumption.
- Coal cost of Cogen business decreased 8.9 per cent to Baht 2,684.5 million. This decrease was due predominantly to lower average coal price.

Maintenance Cost

- Maintenance cost of IPP business rose Baht 480.7 million to Baht 904.8 million. This increase was mostly due to scheduled major maintenance of GIPP and GHECO-One.
- Maintenance cost of Cogen business increased 11.0 per cent to Baht 1,584.7 million resulting from some cogeneration facilities unit had schedule major maintenance.

Selling and administrative expenses

Selling and administrative expenses were Baht 775.6 million in 2015, an increase of 0.3 per cent or equivalent to Baht 2.5 million from Baht 773.1 million as compared to 2014.

Finance costs

Finance costs consisting of interest expenses and financial fees were Baht 3,243.6 million in 2015, a decrease of 4.2 per cent from Baht 3,385.7 million in 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 2015 were Baht 1,075.1 million, a decrease of 3.7 per cent or equivalent to Baht 41.5 million from Baht 1,116.6 million as compared the year before. The majority of the decreases in current income tax expenses were mainly due to lower taxable income.

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

There were the bookings of net change in Deferred Tax Asset (Deferred Tax Revenue) of Baht 111.3 million in 2014 and net change in Deferred Tax Liability (Deferred Tax Expenses) of Baht 18.4 million in the 2015. Furthermore, net change in Deferred Tax Asset/Liability (Deferred Tax Revenues/Expenses), including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 187.6 million and Baht 118.5 million in 2014 and 2015, respectively.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,696.9 million and Baht 1,319.2 million in 2014 and 2015, respectively.

Net Profit

Net profit in 2015 was Baht 8,355.4 million, a decrease of 8.6 per cent from Baht 9,138.9 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 9,539.5 million and Baht 8,832.2 million in 2014 and 2015, respectively.

Net Exchange Gain /Loss

In 2015, there was a net exchange loss of Baht 1,202.4 million, whereas there was a net exchange loss of Baht 61.7 million when compared to the year before. Volatility in gain or loss from currency exchange rates is derived from the US dollar-denominated debt.

Normalized Net Profit¹

Normalized net profit, excluding the adjustment of financial lease accounting of GIPP, which was net income excluding Baht 835.2² million of net foreign exchange loss and deferred tax expenses of Baht 134.4 million, was Baht 9,797.1 million in 2015, an increase of 1.3 per cent from Baht 9,667.9 million in 2014. This normalized net profit is the basis used to determine our dividend distribution.

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Mr. Natthapatt Tanboon-ek
SVP – Treasurer

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.