

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

The First Quarter of 2016 compared to The First Quarter of 2015

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 quarter of 2016, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -284.3 million) and depreciation (Baht +85.0 million) of Baht -199.3 million
- Net adjustment to include Financial Lease Income of Baht +166.3 million
- Net adjustment on Deferred Tax of Baht +6.6 million

Revenues

Total revenue and other incomes that ended March 31, 2016, were Baht 14,186.0 million in the first quarter of 2016, a 12.1 per cent decrease from Baht 16,131.0 million in the first quarter of 2015. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 701.7 million in the first quarter of 2016, a 63.6 per cent decrease from Baht 1,928.7 million in the first quarter of 2015. The important drivers of decreasing were lower availability payment and lower energy payment. The decrease in availability payment of Baht 190.4 million from Baht 599.1 million to Baht 408.9 million resulted from lower availability payment rate, and major maintenance for 1 of the 2 units during 3rd January until 19th February 2016, even though Thai Baht had depreciated which had positive effect on USD-linked revenue. The energy payment decreased by Baht 1,036.6 million from Baht 1,329.6 million to Baht 293.0 million due to lower power dispatch to EGAT which decreased by 92.9 per cent from 509.5 GWh to 36.1 GWh for the first quarter of 2015 and 2016 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 166.3 million and revenue from sales accounted for Baht 417.4 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 3,113.4 million in the first quarter of 2016, an increase of 32.5 per cent from Baht 2,350.4 million in the first quarter of 2015. These increases were mainly because GHECO-One did not perform major planned maintenance in the first quarter of 2016 while GHECO-One had in the first quarter of 2015.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 119.3 million in the first quarter of 2016, a 31.2 per cent decrease from Baht 173.3 million in the same period prior year. These decreases were mainly due to a 35.5 per cent decrease in volume dispatch to EGAT from 97.7 GWh to 63.0 GWh.
- Sales of electricity to EGAT under SPP scheme decreased 9.8 per cent from Baht 4,427.4 million to Baht 3,994.5 million in the first quarter of 2016. These declines were primarily due to lower energy payment as a result of the lower gas price by 18.7 per cent, despite higher power dispatch to EGAT by 2.0 per cent and favorable impact on capacity payment from Thai Baht depreciation.
- Sales of electricity to industrial customers decreased 6.1 per cent to Baht 4,014.3 million in the first quarter of 2016. These decreases were mainly due to lower electricity tariff by 6.0 per cent as a result of decrease in electricity tariff rate charged to industrial customers.
- Sales of steam to industrial customers decreased 6.4 per cent to Baht 1,870.7 million. These decreases were mostly due to a 15.4 per cent lower in selling price as a result of lower gas price, while sale volume increased by 10.8 per cent.
- Sales of other products and services were Baht 116.4 million while accounted for 114.5 million as compared to the year before.
- Other incomes were Baht 373.8 million in the first quarter of 2016, decreased by Baht 747.1 million as 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 250.0 million booked in first quarter of 2015. Additionally, there was the exchange gain of Baht 109.4 million and 305.5 million in first quarter of 2015 and 2016, respectively.

Costs of sales

Cost of goods sold was Baht 9,921.3 million in the first quarter of 2016, a decrease of 19.2 per cent from Baht 12,281.9 million compared to the prior year. The decrease was attributable to the following main factors:

Fuel Cost

- Gas cost of IPP business massively decreased from Baht 1,265.0 million to Baht 235.2 million. The decrease in gas cost was attributable to lower gas consumption as a result of lower power dispatch to EGAT.
- Gas cost of Cogen business declined 17.5 per cent to Baht 5,454.4 million. This decrease was mainly due to lower gas price.

- Coal cost of IPP business increased 14.7 per cent to Baht 1,278.4 million. This increase was primarily due to higher coal consumption from GHECO-One as a result of higher power dispatch to EGAT, despite lower coal price throughout the first quarter of 2016
- Coal cost of Cogen business increased 3.5 per cent to Baht 687.1 million. This increase was due predominantly to higher coal consumption as a result of higher availability, despite lower average coal price.

Maintenance Cost

- Maintenance cost of IPP business dropped Baht 139.7 million to Baht 248.8 million. This decrease was due to lack of scheduled maintenance of GHECO-One which was performed in the first quarter of 2015.
- Maintenance cost of Cogen business decreased 26.9 per cent to Baht 256.7 million resulting from less scheduled major maintenances as compared to the year before.

Selling and administrative expenses

Selling and administrative expenses were Baht 156.3 million in the first quarter of 2016, an increase of 15.6 per cent or equivalent to Baht 21.2 million from Baht 135.2 million as compared to first quarter of 2015.

Finance costs

Finance costs consisting of interest expenses and financial fees were Baht 652.3 million in the first quarter of 2016, a decrease of 17.2 per cent from Baht 787.4 million in the first quarter 2015 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 the first quarter of 2016 were Baht 231.2 million, a decrease of 46.1 per cent or equivalent to Baht 197.8 million from Baht 429.0 million as compared the year before. The majority of the decreases in current income tax expenses were mainly due to major taxable income amount in the first quarter of 2015.

(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 4.4 million in the first quarter of 2015 and net change in Deferred Tax Liability (Deferred Tax Expenses) of Baht 48.1 million in the first quarter of 2016. 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 29.0 million and Baht 6.6 million in the first quarter of 2015 and 2016, respectively.

Minority Interest

There was a net profit attributed to minority interest of Baht 317.7 million and Baht 407.7 million in the first quarter of 2015 and 2016, respectively.

Net Profit

Net profit was Baht 2,764.4 million in the first quarter of 2016, an increase of 26.7 per cent from Baht 2,182.7 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 2,319.3 million and Baht 2,789.4 million in the first quarter of 2015 and 2016, respectively.

Net Exchange Gain /Loss

There was a net exchange gain of Baht 109.4 million and Baht 305.5 million in the first quarter of 2015 and 2016, respectively. 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 208.4² million of net foreign exchange gain and deferred tax expenses of Baht 54.0 million, was Baht 2,635.1 million in the first quarter of 2016, an increase of 15.3 per cent from Baht 2,286.2 million in the first quarter of 2015. 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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Mr. Natthapatt Tanboon-ek
SVP – Treasurer