

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

### *The First 9 months of 2016 compared to The First 9 months 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 9 months of 2016, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -1,065.2 million) and depreciation (Baht +255.0 million) of Baht -810.2 million
- Net adjustment to include Financial Lease Income of Baht +499.0 million
- Net adjustment on Deferred Tax of Baht +62.2 million

### **Revenues**

Total revenue and other incomes that ended September 30, 2016, were Baht 41,190.2 million in the first 9 months of 2016, a 18.8 per cent decrease from Baht 50,736.7 million in the first 9 months of 2015. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 2,325.5 million in the first 9 months of 2016, a decrease of Baht 5,084.2 million from Baht 7,409.7 million in the first 9 months of 2015. The important drivers of decreasing were lower availability payment and lower energy payment. The decrease in availability payment of Baht 336.4 million from Baht 1,847.2 million to Baht 1,510.8 million resulted from lower availability payment rate, and having major maintenance for 1 of the 2 units during 3<sup>rd</sup> January until 19<sup>th</sup> February 2016. The energy payment decreased from Baht 5,562.6 million to Baht 814.7 million due to lower power dispatch to EGAT which decreased from 2,342.9 GWh to 71.6 GWh as compared with the same period year before.

However, with the adoption of Financial Lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income accounted for Baht 499.0 million and revenue from sales accounted for Baht 1,260.4 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 9,485.5 million in the first 9 months of 2016, a decrease of 4.5 per cent from Baht 9,933.5 million in the first 9 months of 2015. These decreases were mainly due to lower energy payment rate despite the fact that GHECO-One served more electricity to EGAT by 12.6 per cent from 3,631.1 GWh to 4,088.6 GWh.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 564.7 million in the first 9 months of 2016, a 6.9 per cent decrease from Baht 606.8 million in the same period prior year. These decreases were mainly due to a 9.7 per cent decrease in volume dispatch to EGAT from 334.4 GWh to 302.0 GWh.
- Sales of electricity to EGAT under SPP scheme decreased 13.3 per cent from Baht 13,335.4 million to Baht 11,567.3 million in the first 9 months of 2016. These declines were primarily due to lower energy payment as a result of the lower gas price and lower coal price by 19.9 per cent and 11.9 per cent, respectively, despite favorable impact on capacity payment from Thai Baht depreciation.
- Sales of electricity to industrial customers decreased 10.2 per cent to Baht 11,495.3 million in the first 9 months of 2016. These decreases were mainly due to lower electricity tariff rate charged to ICs by 8.9 per cent.
- Sales of steam to industrial customers decreased 10.9 per cent to Baht 5,335.4 million. These decreases were mostly due to a 14.4 per cent lower in selling price as a result of lower gas price, while sale volume increased by 4.1 per cent.
- Sales of other products and services were Baht 342.3 million in the first 9 months of 2016 as compared of Baht 353.0 million in the same period of the prior year.
- Other incomes were Baht 640.1 million in the first 9 months of 2016, decreased by Baht 483.1 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 316.6 million in first 9 months of 2015, while there was the exchange gain of Baht 446.3 million recorded in the first 9 months of 2016.

### **Costs of sales**

Cost of goods sold was Baht 29,041.7 million in the first 9 months of 2016, a decrease of 24.2 per cent from Baht 38,313.0 million compared to the prior year. The decrease was attributable to the following main factors:

#### Fuel Costs

- Gas cost of IPP business massively decreased from Baht 5,218.9 million to Baht 744.0 million. The decrease in IPP gas cost was mainly attributable to lower gas consumption as a result of lower power dispatch to EGAT.
- Gas cost of Cogen business declined 20.8 per cent to Baht 15,545.5 million. This decrease was mainly due to lower gas price and the slight decrease in gas consumption.

- Coal cost of IPP business decreased 0.7 per cent to Baht 4,098.3 million. The slight decrease was mainly because favorable coal price was mostly offset by higher coal consumption of GHECO-One.
- Coal cost of Cogen business decreased 3.0 per cent to Baht 1,861.1 million. This decrease was due predominantly to lower average coal price, despite higher coal consumption as a result of higher availability.

#### Maintenance Costs

- Maintenance cost of IPP business dropped by Baht 207.8 million from Baht 615.9 million to Baht 408.1 million. This decrease was due to no plan for scheduled maintenance of GHECO-One which was performed in the first 9 months of 2015.
- Maintenance cost of Cogen business decreased 15.0 per cent to Baht 973.0 million resulting from less scheduled major maintenances as compared to the year before.

#### ***Selling and administrative expenses***

Selling and administrative expenses were Baht 506.2 million in the first 9 months of 2016, a slight increase of 0.8 per cent or equivalent to Baht 4.2 million from Baht 502.0 million as compared to first 9 months of 2015.

#### ***Finance costs***

Finance costs consisting of interest expenses and financial fees were Baht 1,927.9 million in the first 9 months of 2016, a decrease of 16.1 per cent from Baht 2,297.0 million in the first 9 months of 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 9 months of 2016 were Baht 687.3 million, a decrease of 23.9 per cent or equivalent to Baht 216.1 million from Baht 903.4 million as compared the year before. The majority of the decreases in current income tax expenses were mainly due to taxable other incomes booked in the first 9 months of 2015.

##### **(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 81.5 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 62.2 million in the first 9 months of 2016, whereas net change in Deferred Tax Asset (Deferred Tax Revenue) of Baht 3.0 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 107.7 million, was recorded in the first 9 months of 2015.

#### ***Minority Interest***

There was a net profit attributed to minority interest of Baht 929.6 million and Baht 1,185.2 million in the first 9 months of 2015 and 2016, respectively.

#### ***Net Profit***

Net profit was Baht 7,750.9 million in the first 9 months of 2016, an increase of 20.0 per cent from Baht 6,461.4 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 6,897.4 million and Baht 7,987.4 million in the first 9 months of 2015 and 2016, respectively.

#### ***Net Exchange Gain /Loss***

There was a net exchange gain of Baht 446.3 million in the first 9 months of 2016 while there was a net exchange loss of Baht 1,326.6 million in the first 9 months of 2015. Volatility in gain or loss from currency exchange rates is mainly derived from the US dollar-denominated debt.

#### ***Normalized Net Profit***<sup>1</sup>

Normalized net profit, excluding the adjustment of financial lease accounting of GIPP, the net foreign exchange gain of Baht 285.6<sup>2</sup> million, and the deferred tax expenses of Baht 142.9 million, was Baht 7,842.2 million in the first 9 months of 2016, a decrease of 1.2 per cent from Baht 7,934.3 million in the first 9 months of 2015. This normalized net profit is the basis used to determine our dividend distribution.

<sup>1</sup> 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'.

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

.....  
Mr. Natthapatt Tanboon-ek  
SVP – Treasurer