

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

Fiscal Year 2016 compared to Fiscal Year 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 2016, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -1,432.9 million) and depreciation (Baht +340.0 million) of Baht -1,092.9 million
- Net adjustment to include Financial Lease Income of Baht +665.4 million
- Net adjustment on Deferred Tax of Baht +85.5 million

Revenues

Total revenue and other incomes that ended December 31, 2016, were Baht 53,092.1 million in 2016, a 18.8 per cent decrease from Baht 65,369.3 million in 2015. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 3,362.5 million in 2016, a decrease of Baht 5,018.6 million from Baht 8,381.1 million in 2015. The important drivers of decreasing were lower availability payment and lower energy payment. The decrease in availability payment of Baht 271.0 million from Baht 2,298.9 million to Baht 2,027.9 million resulted from lower availability payment rate, and having major maintenance for 1 of the 2 units during 3rd January until 19th February 2016. The energy payment decreased from Baht 6,082.2 million to Baht 1,334.7 million due to lower power dispatch to EGAT which decreased from 2,491.9 GWh to 250.5 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 665.4 million and revenue from sales accounted for Baht 1,929.7 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 11,722.4 million in 2016, a decrease of 12.7 per cent from Baht 13,422.5 million in 2015. These decreases were mainly due to lower energy payment rate as a result of lower coal price index and new coal supply agreement starting in July 2016, despite the fact that GHECO-One served more electricity to EGAT by 4.9 per cent from 4,985.5 GWh to 5,232.1 GWh.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 712.0 million in 2016, a 0.3 per cent decrease from Baht 714.0 million in the same period prior year. These decreases were mainly due to a 1.9 per cent decrease in volume dispatch to EGAT from 387.8 GWh to 380.4 GWh.
- Sales of electricity to EGAT under SPP scheme decreased 13.3 per cent from Baht 17,451.5 million to Baht 15,125.7 million in 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 13.5 per cent, respectively.
- Sales of electricity to industrial customers decreased 10.7 per cent to Baht 15,031.8 million in 2016. These decreases were mainly due to lower electricity tariff rate charged to ICs by 9.1 per cent.
- Sales of steam to industrial customers decreased 12.2 per cent to Baht 6,951.1 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 2.1 per cent.
- Sales of other products and services were Baht 429.1 million in 2016 as compared of Baht 463.1 million in the same period of the prior year.
- Other incomes were Baht 524.9 million in 2016, decreased by Baht 619.5 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 2015, while there was the exchange gain of Baht 83.6 million recorded in 2016.

Costs of sales

Cost of goods sold was Baht 38,479.1 million in the 2016, a decrease of 22.1 per cent from Baht 49,370.9 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 5,635.1 million to Baht 1,232.8 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 19.9 per cent to Baht 20,264.4 million. This decrease was due to lower gas price while gas consumption is steady as compare with the same period last year.
- Coal cost of IPP business decreased 8.9 per cent to Baht 5,117.2 million. The decrease was mainly because favorable coal price despite higher coal consumption from GHECO-One.

- Coal cost of Cogen business decreased 9.6 per cent to Baht 2,426.0 million. This decrease was due predominantly to lower average coal price, while coal consumption is most stable.

Maintenance Costs

- Maintenance cost of IPP business dropped by Baht 207.0 million from Baht 904.8 million to Baht 697.8 million. This decrease was due to no plan for scheduled maintenance of GHECO-One which was performed in 2015.
- Maintenance cost of Cogen business decreased 7.8 per cent to Baht 1,461.1 million resulting from less scheduled major maintenances as compared to the year before.

Selling and administrative expenses

Selling and administrative expenses were Baht 954.5 million in 2016, an increase of 23.1 per cent or equivalent to Baht 178.9 million from Baht 775.6 million as compared to 2015. The significant increase came from writing off old equipment of GHECO-One which was replaced with the new one during planned maintenance in January 2017.

Finance costs

Finance costs consisting of interest expenses and financial fees were Baht 2,599.1 million in 2016, a decrease of 19.9 per cent from Baht 3,243.6 million in 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 2016 were Baht 911.8 million, a decrease of 15.2 per cent or equivalent to Baht 163.2 million from Baht 1,075.1 million as compared to the year before. The majority of the decreases in current income tax expenses were mainly due to taxable other incomes booked in 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 69.8 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 85.5 million in 2016, whereas net change in Deferred Tax Liability (Deferred Tax Expenses) of Baht 18.4 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 118.5 million, was recorded in 2015.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,319.2 million and Baht 1,109.6 million in 2015 and 2016, respectively.

Net Profit

Net profit was Baht 8,953.1 million in 2016, an increase of 7.2 per cent from Baht 8,355.4 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 8,832.2 million and Baht 9,278.1 million in 2015 and 2016, respectively.

Net Exchange Gain /Loss

There was a net exchange gain of Baht 83.6 million in 2016 while there was a net exchange loss of Baht 1,202.4 million in the 2015. Volatility in gain or loss from currency exchange rates is mainly derived from the US dollar-denominated debt.

Normalized Net Profit¹

Normalized net profit, excluding the adjustment of financial lease accounting of GIPP, the net foreign exchange gain of Baht 40.7² million, and the deferred tax expenses of Baht 153.8³ million, was Baht 9,391.2 million in 2016, a decrease of 4.1 per cent from Baht 9,797.1 million in 2015. 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.

³ Excluded deferred tax expenses attributed to minority shareholders in subsidiaries.