

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Three-month and Six-month Periods Ended 30 June, 2017

RATCH



RATCHABURI
ELECTRICITY GENERATING
HOLDING PCL.



(Translation)

1. Significant events of the 2nd quarter of 2017

1.1 The participation in the Investment in Riau Combined-Cycle Power Plant Project in the Republic of Indonesia

On April 7, 2017, RH International (Singapore) Corporation Pte. Ltd. (“RHIS”), an indirect subsidiary, entered into a Joint Venture Agreement to establish PT Medco Ratch Power Riau, an indirect joint venture, in order to invest in Riau Combined-Cycle Power Plant Project in Republic of Indonesia. The registered capital of such indirect joint venture was Indonesian Rupiah 12,000 million. Subsequently in April 2017, RHIS paid 25 percent initial paid-up capital in the proportion of investment of 49 percent amounting to Indonesian Rupiah 1,470 million or equivalent to Baht 3.80 million.

Riau Combined-Cycle Power Plant Project is located in the Republic of Indonesia, with the production capacity of 275 megawatts and 20-year Power Purchase Agreement. The Commercial Operation Date is expected to be within the year 2021.

1.2 The Achievement of Financial Close to Start the Construction of Collinsville Solar Power Project in Australia

On May 5, 2017, RATCH-Australia Corporation Limited (“RAC”) (an indirect subsidiary in which the Company held 80 percent stake) has achieved financial close in order to start the construction of Collinsville Solar Power Project with the installed capacity of 42.50 megawatts in Australia. (RAC held 100 percent stake in the Project). The Project has Power Purchase Agreement Braemar Power Projects, a subsidiary of Alinta Energy, for 70 percent. Such Power Purchase Agreement will be expired on December 31, 2030. The other 30 percent of the generated electricity will be sold in Australia’s National Electricity Market (NEM). The Project had also signed EPC Contract, Electrical Connection Agreement, Operation and Maintenance Agreement and other related agreements. The details of the Financial Agreement are as follows:

RATCH-Australia Collinsville Solar PV Pty Ltd, a subsidiary of RAC, signed Financial Agreement with Clean Energy Finance Corporation (CEFC) with the loan amount of AUD 57 million.

Collinsville Solar Power Project is supported by grant fund for solar power project development from Australian Renewable Energy Agency (ARENA) for AUD 9.50 million. The Project is developed on the area of the already closed coal mine at the north of Queensland, Australia. The Project Cost is approximately AUD 95 million. The Financial Structure consists of loan from financial institute at approximately 60 percent, grant fund from ARENA at 10 percent and equity investment at approximately 30 percent. The construction has already started in May 2017, and the Power Plant is expected to commence commercial operation in May 2018.

1.3 Signing of Engineering, Procurement, and Construction Contract of Berkprai Cogeneration SPP Project

On June 6, 2017, Berkprai Cogeneration Company Limited (an indirect joint venture in which Ratchaburi Electricity Generating Company Limited, the Company's direct subsidiary, holds 35 percent stake), the operator of Berkprai Cogeneration SPP Project, has signed Facilities Agreement with Bangkok Bank Public Company Limited. The loan amount is Baht 4,000 million for the period of 20 years from the agreement signing date.

In May and July 2017, Ratchaburi Electricity Generating Company Limited has paid for additional share capital, by its proportion, in the amount of Baht 86.18 million and Baht 32.61 million, respectively. As a result, the total paid up capital is Baht 845.55 million or 63.53 percent of the registered capital.

Berkprai Cogeneration SPP Project, located in Berkprai Sub-district, Ban Pong District, Ratchaburi Province, has approximately 100 megawatts electricity generating capacity and steam generating capacity of 15 tons per hour. It The Project has 25-year Firm Cogeneration PPA with Electricity Generating Authority of Thailand. It is expected to commence commercial operation in 2019.

1.4 The Entering into the Concession Contracts of the MRT Pink Line Project and the MRT Yellow Line Project

As the Company together with BTS Group Holding Public Company Limited ("BTS") and Sino-Thai Engineering & Construction Public Company Limited ("STEC") have jointly invested in the MRT Pink Line Project (Khae Rai - Min Buri) and the MRT Yellow Line Project (Lat Phrao - Samrong);

On June 12, 2017, the Company, BTS, and STEC jointly established companies namely "Northern Bangkok Monorail Company Limited" and "Eastern Bangkok Monorail Company Limited", in which the Company, BTS and STEC held 10 percent stake, 75 percent stake and 15 percent stake of shares in each company, respectively.

On June 16, 2017, Northern Bangkok Monorail Company Limited and Eastern Bangkok Monorail Company Limited have entered into the Concession Contracts including of the obligation for extensions of the MRT Pink Line Project and the MRT Yellow Line Project with Mass Rapid Transit Authority of Thailand ("MRTA").

The MRT Pink Line Project (Khae Rai - Min Buri), having a total track length of 34.5 kilometers, and the MRT Yellow Line Project (Lat Phrao - Samrong), having a total track length of 30.4 kilometers, to Mass Rapid Transit Authority of Thailand ("MRTA"), both projects are under the Public-Private Partnership (PPP) framework.

2. Operation performance according to consolidated financial statement

For the three-month period (April 1, 2017 – June 30, 2017)

Unit : Million Baht

	Quarter 2		Increase (Decrease)	%
	2017	2016		
Revenue from sale and rendering of services (excluded Fuel Cost)	1,775.42	1,751.17	24.25	1.4
Revenue from financial leases	1,021.65	1,141.01	(119.36)	(10.5)
Share of profit of associate entities and joint ventures	1,383.38	877.89	505.49	57.6
Other incomes	262.24	224.88	37.36	16.6
Total revenues	4,442.69	3,994.95	447.74	11.2
Cost of sale and rendering of services (excluded Fuel Cost)	1,333.23	1,244.20	89.03	7.2
Administrative expenses	389.70	340.51	49.19	14.4
Finance costs	369.63	352.58	17.05	4.8
Income tax expense	233.25	217.75	15.50	7.1
Total expenses	2,325.81	2,155.04	170.77	7.9
	2,116.88	1,839.91	276.97	15.1
Non-controlling Interests	36.09	23.37	12.72	54.4
Profit Attributable to Owner of the Company before exchange rate	2,152.97	1,863.28	289.69	15.5
Gain (loss) on exchange rate	48.02	(762.23)	810.25	106.3
Profit Attributable to Owner of the Company	2,200.99	1,101.05	1,099.94	99.9
Earnings per share (Baht)	1.52	0.76		
<i>Fuel Cost</i>	<i>8,090.95</i>	<i>9,607.32</i>		

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the 2nd quarter of 2017 showed the profit of Baht 2,200.99 million or Baht 1.52 per share, compared to the profit of Baht 1,101.05 million or Baht 0.76 per share of the 2nd quarter of 2016, which showed an increase in profit of Baht 1,099.94 million, or 99.9 percent. The significant transactions were as follows:-

2.1 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the 2nd quarter of 2017 was Baht 1,383.38 million, increasing by Baht 505.49 million or 57.6 percent from Baht 877.89 million in the 2nd quarter of 2016. The main reasons were as follows:-

2.1.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 599.48 million; as well as, the profit of Phu Fai Mining Company Limited, a joint venture for coal mining and trading to HPC, in a portion of 37.5 percent increased in the amount of Baht 15.70 million, since Hongsa Power Plants generated electricity more than the same period of the previous year.

2.1.2 The profit of Navanakorn Electricity Generating Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 35.87 million since the power plant has commenced commercial operation on June 3, 2016.

2.2 The effect of exchange rate of the Company and its subsidiaries

In the 2nd quarter of 2017, the Company recorded gain on exchange rate of Baht 48.02 million, while the loss on exchange rate in the 2nd quarter of 2016 was Baht 762.23 million. The main reason was due to the appreciation of the JPY Currency in the 2nd quarter of 2016, resulting in loss on exchange rate of JPY bond. Additionally, the depreciation of AUD Currency resulted in the decrease in asset value in AUD Currency.

2.3 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 2nd quarter of 2017 was Baht 1,021.65 million, decreasing by Baht 119.36 million or 10.5 percent from Baht 1,141.01 million in the 2nd quarter of 2016. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

2.4 Cost of sale and rendering of services (excluding fuel costs)

Cost of sale and rendering of services (excluding fuel costs of Baht 8,090.95 million) for the 2nd quarter of 2017 was Baht 1,333.23 million, increasing by Baht 89.03 million, or 7.2 percent from revenue from Sale and rendering of services (excluding fuel costs of Baht 9,607.32 million) Baht 1,244.20 million in the 2nd quarter of 2016. The main reason was from the increase in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 85.53 million. This was due to the loss from provision of diesel oil in the amount of Baht 45.05 million in the 2nd quarter of 2017. While, in the 2nd quarter of 2016, Company recorded the gain from provision of diesel oil in the amount of Baht 120.36 million and recorded spare parts in the amount of Baht 95.16 million.

3. Operation performance according to consolidated financial statement

For the six-month period (Jan 1, 2017 – June 30, 2017)

Unit : Million Baht

	Quarter 1-2		Increase (Decrease)	%
	2017	2016		
Revenue from sale and rendering of services (excluded Fuel Cost)	3,499.32	3,421.72	77.60	2.3
Revenue from financial leases	2,077.87	2,309.24	(231.37)	(10.0)
Share of profit of associate entities and joint ventures	1,910.09	1,236.27	673.82	54.5
Other incomes	471.60	418.38	53.22	12.7
Total revenues	7,958.88	7,385.61	573.27	7.8
Cost of sale and rendering of services (excluded Fuel Cost)	2,671.13	2,398.76	272.37	11.4
Administrative expenses	825.43	711.55	113.88	16.0
Finance costs	770.00	679.42	90.58	13.3
Income tax expense	480.31	526.81	(46.50)	(8.8)
Total expenses	4,746.87	4,316.54	430.33	10.0
	3,212.01	3,069.07	142.94	4.7
Non-controlling Interests	66.40	47.04	19.36	41.2
Profit Attributable to Owner of the Company before exchange rate	3,278.41	3,116.11	162.30	5.2
Gain (loss) on exchange rate	281.02	(755.73)	1,036.75	137.2
Profit Attributable to Owner of the Company	3,559.43	2,360.38	1,199.05	50.8
Earnings per share (Baht)	2.45	1.63		

Fuel Cost **15,165.10** **20,013.12**

The operating result according to the consolidated financial statements of the Company and its subsidiaries for the first six-month period of the year 2017 showed the profit of Baht 3,559.43 million or Baht 2.45 per share, compared to the profit of Baht 2,360.38 million or Baht 1.63 per share of the first six-month period of the year 2016, which showed an increase in profit of Baht 1,199.05 million, or 50.8 percent. The significant transactions were as follows:-

3.1 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the first six-month period of the year 2017 was Baht 1,910.09 million, increasing by Baht 673.82 million or 54.5 percent from Baht 1,236.27 million in the first six-month period of the year 2016. The main reasons were as follows:-

3.1.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 817.60 million; as well as, the profit of Phu Fai Mining Company Limited, a joint venture for coal mining and trading to HPC, in a portion of 37.5 percent increased in the amount of Baht 31.23 million, since Hongsa Power Plants generated electricity more than the same period of the previous year. In addition, Hongsa Power Plants commenced its commercial operation for 3 units on June 2, 2015, November 2, 2015, and March 2, 2016, respectively.

3.1.2 The profit of Navanakorn Electricity Generating Company Limited, a joint venture, in a portion of 40 percent, increased in the amount of Baht 77.28 million since the power plant has commenced commercial operation on June 3, 2016.

3.2 The effect of exchange rate of the Company and its subsidiaries

In the first six-month period of the year 2017, the Company recorded gain on exchange rate of Baht 281.02 million, while the loss on exchange rate in the first six-month period of the year 2016 was Baht 755.73 million. The main reason was due to the appreciation of the JPY Currency in the first six-month period of the year 2016, resulting in loss on exchange rate of JPY bond.

3.3 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the first six-month period of the year 2017 was Baht 2,077.87 million, decreasing by Baht 231.37 million from 2,309.24 million or 10.0 percent in the first six-month period of the year 2016. The decrease was from the recognition of lease receivable, in accordance with the Effective Interest Method.

3.4 Cost of sale and rendering of services (excluding fuel costs)

Cost of sale and rendering of services (excluding fuel costs of Baht 15,165.10 million) for the first six-month period of the year 2017 was Baht 2,671.13 million, increasing by Baht 272.37 million, or 11.4 percent from revenue from Sale and rendering of services (excluding fuel costs of Baht 20,013.12 million) Baht 2,398.76 million in the first six-month period of the year 2016. The main reason was from the increase in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 284.36 million. This was due to the loss from provision of diesel oil in the amount of Baht 61.06 million in the first six-month period of the year 2017. While, the Company had gain from provision of diesel oil in the amount of Baht 202.00 million in the same period of the previous year.

4. Analysis of Statements of Financial Position

4.1 Analysis of Assets

As at June 30, 2017, the total assets were Baht 97,113.71 million, increasing by Baht 722.62 million or 0.7 percent from Baht 96,391.09 million as at December 31, 2016. The details were as follows:

(Million Baht)

	Jun 30, 2017	Dec 31, 2016	Increase (Decrease)	%
Current assets	26,159.74	26,303.02	(143.28)	(0.5)
Non-current assets	70,953.97	70,088.07	865.90	1.2
Total Assets	97,113.71	96,391.09	722.62	0.7

4.1.1 Assets of Mount Emerald Wind Farm Project and Collinsville Solar Power Project; projects of RATCH-Australia Corporation Limited, a subsidiary located in Australia, had increased in the total amount of AUD 51.47 million.

4.1.2 The Company additionally invested in Xe-Pian Xe-Namnoy Power Company Limited and Berkprai Cogeneration Company Limited in the total amount of Baht 587.74 million. In addition, the Company invested in the MRT Pink Line Project and the MRT Yellow Line Project in the total amount of Baht 700 million.

4.1.3 Financial lease receivables from related party decreased in the amount of Baht 1,954.25 million.

4.2 Analysis of Liabilities and Equity

As at June 30, 2017, total liabilities and equity were Baht 97,113.71 million, increasing by Baht 722.62 million or 0.7 percent from Baht 96,391.09 million as at December 31, 2016. The details were as follows:

(Million Baht)

	Jun 30, 2017	Dec 31, 2016	Increase (Decrease)	%
Liabilities	33,729.63	33,938.32	(208.69)	(0.6)
Equity	63,384.08	62,452.77	931.31	1.5
Total Liabilities and Equity	97,113.71	96,391.09	722.62	0.7

4.2.1 Equity increased in the amount of Baht 931.31 million. The main reasons are as follows:

(1) The profit of the first six-month period of the year 2017 in the amount of Baht 3,559.43 million

(2) The dividend payment in accordance with shareholders' resolution in the Annual General Meeting of Shareholders in April 2017 decreased retained earnings in the amount of Baht 1,812.50 million.

(3) Other components of equity decreased in the amount of Baht 754.17 million. The main reason was, currency translation differences decreased the equity in the amount of Baht 603.31 million; in addition, fair value changes in investment in EDL-Generation Public Company decreased the equity in the amount of Baht 151.18 million.

(4) Non-controlling interests decreased by Baht 61.45 million.

5. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at June 30, 2017 were Baht 9,104.04 million, decreasing by Baht 315.17 million from Baht 9,419.21 million on December 31, 2016. The details were summarized below:

	(Million Baht)
Net cash from operating activities	4,286.33
Net cash used in investing activities	(847.43)
Net cash used in financing activities	(3,624.99)
Effect of exchange rate changes on balances held in foreign currencies	(129.08)
Net cash decrease during the period	<u><u>(315.17)</u></u>

5.1 Net cash from operating activities increased cash flow in the amount of Baht 4,286.33 million. The reason was the operating result of the first six-month period of the year 2017 increased cash in the amount of Baht 3,119.28 million. In addition, the change in operating assets and liabilities increased cash in the amount of Baht 1,167.05 million.

5.2 Net cash used in investing activities decreased cash flow in the amount of Baht 847.43 million. The main reasons were as follow:-

5.2.1 RATCH-Australia Corporation Limited, a subsidiary, invested in Mount Emerald Wind Farm Project and Collinsville Solar Power Project in Australia in the total amount of AUD 51.47 million.

5.2.2 The Company additionally invested in Xe-Pian Xe-Namnoy Power Company Limited and Berkprai Cogeneration Company Limited in the total amount of Baht 587.74 million. In addition, the Company invested in the MRT Pink Line Project and the MRT Yellow Line Project in the proportion of 10 percent in the total amount of Baht 700 million.

5.2.3 RH International (Singapore) Corporation Pte. Ltd. (“RHIS”), an indirect subsidiary, made an advance payment for shares subscription in the amount of USD 20.83 million (equivalent to Baht 708.03 million) to PT Medco Ratch Power Riau, an indirect joint venture, to develop the Riau Thermal Power Plant Project in Indonesia.

5.2.4 The Company received cash from current investments in the amount of Baht 1,667.80 million.

5.2.5 The Company received dividends from joint ventures in the total amount of Baht 988.32 million.

5.3 Net cash used in financing activities decreased cash flow in the amount of Baht 3,624.99 million. The main reasons were as follow:-

5.3.1 The dividend payment to shareholders in April 2017, in the amount of Baht 1,811.57 million.

5.3.2 The Company made a short-term loan repayment during the period in the amount of Baht 1,500 million.

5.3.3 The Company paid for interest expenses in the amount of Baht 720.75 million.

5.3.4 RATCH-Australia Corporation Limited received long-term loan from financial institutes in the amount of AUD 15.63 million (equivalent to baht 408.23 million).

6. Significant Financial Ratios (Excluded the effect of foreign exchange rate)

Ratios		Quarter 2	
		2017	2016
1) Current Ratio	(Times)	1.96	1.76
2) Profit to Total Revenue (excluded fuel costs)	(%)	47.65	46.06
3) Return on Equity **	(%)	9.94	9.81
4) Return on Assets **	(%)	6.29	6.26
5) EBITDA *	(Million Baht)	3,121	2,641
6) EBITDA to Total Assets	(%)	3.22	2.82
7) Debt to Equity Ratio	(Times)	0.53	0.56
8) Debt Service Coverage Ratio	(Times)	7.91	7.11
9) Book Value per Share	(Baht)	43.66	42.00

* Not included the change in lease receivable (Million Baht) 2,028.12 1,597.68

** Data for 12-month period