

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

The First 9 months of 2017 compared to The First 9 months of 2016

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, the 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 2017, adjustments to reflect Financial Lease accounting standard from old standard are:

- Net adjustment to exclude Availability Payment (Baht -891.1 million) and depreciation (Baht +255.2 million) of Baht -635.9 million
- Net adjustment to include Financial Lease Income of Baht +425.5 million
- Net adjustment on Deferred Tax of Baht +42.1 million

Revenues

Total revenue and other incomes that ended September 30, 2017, were Baht 39,643.5 million in the first 9 months of 2017, a 3.8 per cent decrease from Baht 41,191.6 million in the first 9 months of 2016. The decreases were attributable to the following main factors:

- Revenue received from EGAT by GIPP, under IPP scheme, accounted for Baht 2,108.0 million in the first 9 months of 2017, a decrease of 9.4 per cent from Baht 2,325.5 million in the first 9 months of 2016. The important drivers of the decrease were lower energy payment which decreased Baht 93.8 million from Baht 814.7 million to Baht 721.0 million due to lower power dispatch to EGAT which decreased from 71.6 GWh to 21.9 GWh and the decrease in availability payment by Baht 123.7 million from Baht 1,510.8 million to Baht 1,387.1 million resulted from lower availability payment rate.

However, with the adoption of Financial Lease, sales of electricity to EGAT recorded in financial statement consisting of financial lease income accounted for Baht 425.5 million and revenue from sales accounted for Baht 1,216.9 million.

- Sales of electricity to EGAT by GHECO-One, under IPP scheme, accounted for Baht 8,335.1 million in the first 9 months of 2017, a decrease of 12.1 per cent from Baht 9,485.5 million in the first 9 months of 2016. These decreases were mainly due to lower energy payment rate as a result of new coal supply agreement starting in July 2016. Moreover, scheduled maintenance during 1st January to 5th February led to lower power dispatch to EGAT by 8.6 per cent from 4,088.6 GWh to 3,735.8 GWh.
- Sales of electricity to EGAT and EDL by Houay Ho Power (HHPC), under IPP scheme, accounted for Baht 591.6 million in the first 9 months of 2017, a 4.8 per cent increase from Baht 564.7 million in the same period prior year. These increases were mainly due to a 6.7 per cent increase in volume dispatch to EGAT from 302.0 GWh to 322.2 GWh.
- Sales of electricity to EGAT under SPP scheme decreased 9.9 per cent from Baht 11,567.3 million to Baht 10,427.2 million in the first 9 months of 2017. These declines were primarily due to lower energy payment as the results of lower power dispatch to EGAT by 5.3 per cent due to the expiration of two PPAs of SPP Phase 2 in 2017 which was extended under SPP extension scheme and lower gas price by 4.2 per cent in spite of higher coal price by 25.7 per cent.
- Sales of electricity to industrial customers increased 2.2 per cent to Baht 11,743.0 million in the first 9 months of 2017. These increases were mainly due to higher electricity sold to industrial customers by 4.9 per cent despite lower electricity tariff rate charged to ICs by 2.6 per cent.
- Sales of steam to industrial customers decreased 1.8 per cent to Baht 5,238.6 million. These decreases were mostly due to a 3.8 per cent lower in selling price as a result of lower gas price, while sale volume increased by 2.0 per cent.
- Sales of other products and services were Baht 333.2 million in the first 9 months of 2017 as compared of Baht 342.3 million in the same period of the prior year.
- Other incomes were Baht 1,332.4 million in the first 9 months of 2017, an increase of Baht 690.9 million, as there was a booking of business interruption claim of GHECO-One of Baht 291.9 million in the first half of 2017, while there were the exchange gain of Baht 446.3 million and Baht 754.4 million in the first 9 months of 2016 and 2017, respectively.

Costs of sales

Cost of goods sold was Baht 28,152.1 million in the first 9 months of 2017, a decrease of 3.1 per cent from Baht 29,041.7 million compared to the prior year. The decrease was attributable to the following main factors:

Fuel Costs

- Gas cost of IPP business decreased from Baht 744.0 million to Baht 711.7 million. The decrease in IPP gas cost was mainly attributable to lower gas consumption and slightly attributable to lower gas price.
- Gas cost of Cogen business declined 5.4 per cent to Baht 14,701.9 million. This decrease was due to lower gas price and lower gas consumption.
- Coal cost of IPP business decreased 16.4 per cent to Baht 3,427.4 million. The decrease was mainly because of lower coal consumption due to scheduled maintenance of GHECO-One.
- Coal cost of Cogen business increased 20.4 per cent to Baht 2,241.3 million. This increase was due predominantly to higher average coal price.

Maintenance Costs

- Maintenance cost of IPP business increased by Baht 208.4 million from Baht 408.1 million to Baht 616.5 million. This increase was due to scheduled maintenance of GHECO-One in the first quarter of 2017.
- Maintenance cost of Cogen business decreased by 6.6 per cent from Baht 973.0 million to Baht 908.6 million because cogeneration facilities unit had less maintenance in the first 9 months of 2017 as compared to in the first 9 months of 2016.

Selling and administrative expenses

Selling and administrative expenses were Baht 524.8 million in the first 9 months of 2017, an increase of 3.7 per cent or equivalent to Baht 18.6 million from Baht 506.2 million in the first 9 months of 2016.

Finance costs

Finance costs consisting of interest expenses and financial fees were Baht 1,810.8 million in the first 9 months of 2017, a decrease of 6.1 per cent from Baht 1,927.9 million in the first 9 months of 2016 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 2017 were Baht 774.0 million, an increase of 12.6 per cent or equivalent to Baht 86.7 million from Baht 687.3 million in the first 9 months of 2016. The majority of the increases in current income tax expenses were mainly due to booking of business interruption claim of GHECO-One in the first half of 2017.

(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 27.3 million, including the adjustment of deferred tax revenue booked under financial lease of GIPP accounted for Baht 42.1 million in the first 9 months of 2017, whereas 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, was recorded in the first 9 months of 2016.

Minority Interest

There was a net profit attributed to minority interest of Baht 1,207.5 million and Baht 1,185.2 million in the first 9 months of 2016 and 2017, respectively.

Net Profit

Net profit was Baht 7,138.3 million in the first 9 months of 2017, a decrease of 7.9 per cent from Baht 7,750.9 million in the previous year, whereas net profit excluding the adjustment of financial lease accounting of GIPP was Baht 7,987.4 million and Baht 7,298.3 million in the first 9 months of 2016 and 2017, respectively.

Net Exchange Gain /Loss

There was a net exchange gain of Baht 446.3 million and Baht 754.4 million in the first 9 months of 2016 and 2017, respectively. 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 496.5² million, and the deferred tax expenses of Baht 68.9³ million, was Baht 6,894.2 million in the first 9 months of 2017, a decrease of 12.1 per cent from Baht 7,842.2 million in the first 9 months of 2016. This normalized net profit is the basis used to determine our dividend distribution.

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Mr. Pajongwit Pongsivapai
Chief Finance Officer and Executive Vice President

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.