

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the 1st Quarter Ended 31 March, 2018



(Translation)

1. Significant events of the 1st quarter of 2018

1.1 The Repurchase of Existing Notes and the issuance and Offering of Newly-Issued Notes

On March 27, 2018, RH International (Singapore) Corporation Pte. Limited “RHIS”, a subsidiary, partially repurchased “US\$300,000,000 3.5% notes due 2019”, that will be due in 2019, from investors overseas in aggregate principal amount of USD 193 million. Meanwhile, RHIS also completed its issue and offering of “US\$300,000,000 4.5% notes due 2028” in the amount of USD 300 million. The new notes were issued with a tenor of 10 years and a maturity date in 2028, and bear a fixed interest rate of 4.50 percent per annum. Payment under the notes is guaranteed by the Company. The net proceeds from the issue of the new notes will be used to fund the repurchase of the existing notes and to finance the Group’s general corporate purposes, including, but not limited to, working capital requirements, capital expenditures, funding the Group’s investment activities and/or refinancing debts.

1.2 Securities Sale Deed to increase investment proportion in RATCH-Australia Corporation Limited

On April 20, 2018, RH International (Singapore) Corporation Ptd. Limited, a subsidiary, entered into a Securities Sale Deed with Broadspectrum Pty Limited to acquire 20 percent of the shares of RATCH-Australia Corporation Limited, a subsidiary, held by Broadspectrum Pty Limited and as part of the repayment of the outstanding long-term loans from Broadspectrum Pty Limited. including related rights under the terms of the agreement for an amount of Australian Dollars 53.50 million. Subsequently on May 3, 2018, RH International (Singapore) Corporation Ptd. Limited acquired such shares from Broadspectrum Pty Limited and repaid such outstanding long-term loans to Broadspectrum Pty Limited. As a result, the proportion of investment in RATCH-Australia Corporation Limited of the Group changed from 80 percent to 100 percent.

2. Operation performance according to consolidated financial statement

Unit : Million Baht

	Quarter 1		Increase (Decrease)	%
	2018	2017		
Revenue from sale and rendering of services (excluding Fuel Cost)	1,554.21	1,723.91	(169.70)	(9.8)
Revenue from financial leases	885.23	1,056.21	(170.98)	(16.2)
Share of profit of associate entities and joint ventures	845.82	526.70	319.12	60.6
Other incomes	112.08	209.37	(97.29)	(46.5)
Total revenues	3,397.34	3,516.19	(118.85)	(3.4)
Cost of sale and rendering of services (excluding Fuel Cost)	1,194.84	1,337.90	(143.06)	(10.7)
Administrative expenses	405.63	435.73	(30.10)	(6.9)
Finance costs	434.76	400.37	34.39	8.6
Income tax expense	229.05	247.06	(18.01)	(7.3)
Total expenses	2,264.28	2,421.06	(156.78)	(6.5)
	1,133.06	1,095.13	37.93	3.5
Non-controlling Interests	27.73	30.31	(2.58)	(8.5)
Profit Attributable to Owner of the Company before exchange rate	1,160.79	1,125.44	35.35	3.1
Gain (loss) on exchange rate	(344.10)	233.00	(577.10)	(247.7)
Profit Attributable to Owner of the Company	816.69	1,358.44	(541.75)	(39.9)
Earnings per share (Baht)	0.56	0.94		
Fuel Cost	6,539.55	7,074.14		

The operating result, for the 1st quarter of 2018, without consideration of the effect of foreign exchange rate of the Company and its subsidiaries, showed the profit of Baht 1,160.79 million, compared to the profit of Baht 1,125.44 million of the 1st quarter of 2017, increasing by Baht 35.35 million, or 3.1 percent. Considering the effect of foreign exchange rate, the operating result according to the consolidated financial statements of the Company and its subsidiaries for the 1st quarter of 2018 showed the profit of Baht 816.69 million or Baht 0.56 per share, decreasing by Baht 541.75 million or 39.9 percent, compared to the profit of Baht 1,358.44 million or Baht 0.94 per share of the 1st quarter of 2017. The significant transactions were as follows:-

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

In the 1st quarter of 2018, the Company recorded loss on exchange rate of Baht 344.10 million, due to the depreciation of AUD currency in relative to USD currency, resulting in the decrease of net asset value in AUD currency. In contrast, the Company recorded gain on exchange rate of Baht 233.00 million in the 1st quarter of 2017 due to the appreciation of AUD currency in relative to USD currency, resulting in the increase of net asset value in AUD currency.

2.2 Share of profits of associated entities and joint ventures

Share of profits in associate entities and joint ventures for the 1st quarter of 2018 was Baht 845.82 million, increasing by Baht 319.12 million or 60.6 percent from Baht 526.70 million in the 1st quarter of 2017. The main reasons were as follows:-

2.2.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent increased in the amount of Baht 432.85 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 13.51 million, as Hongsa Power Plants generated more electricity than the same period of the previous year.

2.2.2 The profit of Ratchaburi Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 52.31 million. The main reason was the decrease in revenue from finance lease contracts in the amount of Baht 29.83 million. Additionally, the shutdowns for planned maintenance were more than those of the same period of the previous year.

2.2.3 The loss of Xe-Pian Xe-Namnoy Power Company Limited, an under construction joint venture, in a portion of 25 percent, was Baht 95.19 million in the 1st quarter of 2018, increased from the same period of the previous year in the amount of Baht 44.98 million. The main reason was due to the increase of the loss on exchange rate in the amount of Baht 44.84 million.

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

Cost of sale and rendering of services for the 1st quarter of 2018 was Baht 1,194.84 million (excluding fuel costs of Baht 6,539.55 million), decreasing by Baht 143.06 million, or 10.7 percent from the cost of sale and rendering of services in the 1st quarter of 2017 in the amount of Baht 1,337.90 million (excluding fuel costs of Baht 7,074.14 million). The main reason was from the decrease in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 96.71 million, as the shutdowns for planned maintenance during the year 2018 were less than those of the previous year.

2.4 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 1st quarter of 2018 was Baht 885.23 million, decreasing by Baht 170.98 million or 16.2 percent from Baht 1,056.21 million in the 1st quarter of 2017. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

2.5 Revenue from Sales and Rendering of Services (excluding fuel costs)

Revenue from sale and rendering of services for the 1st quarter of 2018 was Baht 1,554.21 million (excluding fuel costs of Baht 6,539.55 million), decreasing by Baht 169.70 million or 9.8 percent from revenue from sale and rendering of services in the 1st quarter of 2017 of Baht 1,723.91 million (excluding fuel costs of Baht 7,074.14 million). The main reason was the decrease in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 115.50 million due to the decrease in Base Availability Credit in 2018 compared to that of 2017, as specified in the Power Purchase Agreement.

2.6 Other Income

Other income for the 1st quarter of 2018 was Baht 20.49 million, decreasing by Baht 80.87 million or 79.8 percent from Baht 101.36 million in the 1st quarter of 2017, the main reason was due to the recognition of Liquidate Damage Compensation of Tri Energy Power Plant, as specified in the Operation and Maintenance agreement, in the 1st quarter of 2017, in the amount of USD 2.5 million (equivalent to Baht 85.60 million).

3. Analysis of Statements of Financial Position

3.1 Analysis of Assets

As at March 31, 2018, the total assets were Baht 98,096.58 million, increasing by Baht 3,871.75 million or 4.1 percent from Baht 94,224.83 million as at December 31, 2017. The details were as follows:

(Million Baht)

	Mar 31, 2018	Dec 31, 2017	Increase (Decrease)	%
Current assets	26,767.98	23,525.93	3,242.05	13.8
Non-current assets	71,328.60	70,698.90	629.70	0.9
Total Assets	98,096.58	94,224.83	3,871.75	4.1

3.1.1 Cash and cash equivalents increased in the amount of Baht 3,922.36 million. The details are described in no.4.

3.1.2 Assets of Mount Emerald Wind Farm Project and Collinsville Solar Power Project; projects under RATCH-Australia Corporation Limited, a subsidiary located in Australia, increased in the total amount of AUD 105.05 million.

3.1.3 Financial lease receivables from related party decreased in the amount of Baht 873.84 million.

3.2 Analysis of Liabilities

As at March 31, 2018, total liabilities were Baht 35,246.96 million, increasing by Baht 4,303.31 million or 13.9 percent from Baht 30,943.65 million as at December 31, 2017. The details were as follows:

(Million Baht)

	Mar 31, 2018	Dec 31, 2017	Increase (Decrease)	%
Current Liabilities	8,819.07	9,541.63	(722.56)	(7.6)
Non-Current Liabilities	26,427.89	21,402.02	5,025.87	23.5
Liabilities	35,246.96	30,943.65	4,303.31	13.9

3.2.1 RH International (Singapore) Corporation Pte. Limited, a subsidiary, repurchased existing notes in aggregate principal amount of USD 193 million, and completed its issue and offering of USD 300 million notes. The details are described in No. 1.1.

3.2.2 RATCH-Australia Corporation Limited, a subsidiary, received long-terms loan from financial institutions during the period in the amount of AUD 101.99 million.

3.2.3 Trade accounts payable of Ratchaburi Electricity Generating Company Limited, a subsidiary decreased in the amount of Baht 435.26 million as Ratchaburi Power Plants generated less electricity in February and March 2018 than that of in November and December 2017, resulting in the decrease in fuel consumption.

3.3 Analysis of Equity

As at March 31, 2018, equity was Baht 62,849.62 million, decreasing by Baht 431.56 million or 0.7 percent from Baht 63,281.18 million as at December 31, 2017. The main reasons were as follows:

3.3.1 The profit of the 1st quarter of 2018 in the amount of Baht 816.69 million

3.3.2 Other components of equity decreased in the amount of Baht 1,234.81 million. The main reason was currency translation differences, decreasing the equity in the amount of Baht 973.16 million. Additionally, change in fair value of the investment in EDL-Generation Public Company decreased the equity in the amount of Baht 263.33 million.

3.3.3 Non-controlling interests decreased by Baht 13.44 million.

4. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at March 31, 2018 were Baht 13,209.82 million, increasing by Baht 3,922.36 million from Baht 9,287.46 million on December 31, 2017. The details were summarized below:

	(Million Baht)
Net cash from operating activities	1,112.70
Net cash used in investing activities	(2,397.48)
Net cash from financing activities	5,301.42
Effect of exchange rate changes on balances held in foreign currencies	(94.28)
Net cash decrease during the period	<u><u>3,922.36</u></u>

4.1 Net cash from operating activities increased cash flow in the amount of Baht 1,112.70 million. The reason was the operating result of the 1st quarter of 2018 improved cash position by Baht 1,098.69 million, together with the change in operating assets and liabilities in the amount of Baht 14.01 million.

4.2 Net cash used in investing activities decreased cash flow in the amount of Baht 2,397.48 million. The main reason was 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 105.05 million.

4.3 Net cash from financing activities increased cash flow in the amount of Baht 5,301.42 million. The main reasons were as follows:-

4.3.1 RH International (Singapore) Corporation Pte. Limited, a subsidiary, repurchased existing notes in aggregate principal amount of USD 193 million, and completed its issue and offering of USD 300 million notes. The details are described in No. 1.1.

4.3.2 RATCH-Australia Corporation Limited, a subsidiary, received long-term loan from financial institution in the amount of AUD 101.99 million (equivalent to Baht 2,448.13 million).

4.3.3 The Company paid for interest expenses in the amount of Baht 408.87 million.

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

Ratios		Quarter 1	
		2018	2017
1) Current Ratio	(Times)	3.04	2.61
2) Profit to Total Revenue (excluded fuel costs)	(%)	33.35	31.15
3) Return on Equity **	(%)	9.01	9.00
4) Return on Assets **	(%)	5.72	5.80
5) EBITDA *	(Million Baht)	2,109	2,113
6) EBITDA to Total Assets	(%)	2.19	2.19
7) Debt to Equity Ratio	(Times)	0.56	0.52
8) Debt Service Coverage Ratio	(Times)	5.54	4.71
9) Book Value per Share	(Baht)	43.34	43.78
* Not included the change in lease receivable	(Million Baht)	898.36	994.94

** Data for 12-month period