

Ratchaburi Electricity Generating Holding PCL

Management Discussion and Analysis

For the Three-month and Nine-month Periods Ended 30 September, 2018



(Translation)

1. Significant events of the 3rd quarter of 2018

1.1 Changes in Accounting Policy

On January 1, 2018, the Company had applied accounting policy for derivative financial instruments and hedge accounting. The changes have been applied retrospectively. The significant principles are as follows:-

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks, which are recognized initially at fair value. Subsequent to initial recognition, they are remeasured at fair value, gain or loss on remeasurement to fair value is recognized immediately in profit or loss. However, where derivatives qualified for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

In case of Cash Flow Hedges, only the effective portion of changes in the fair value of the derivative financial instrument is recognized in other comprehensive income. Any ineffective portion is recognized immediately in profit or loss.

The consolidated statement of financial position as at 31 December 2017, the consolidated statements of comprehensive income for the three-month and nine-month periods, the consolidated of changes in equity, and cash flows for the nine-month period ended 30 September 2017, comparative information, were adjusted according to the accounting policy changes. The impacts on the consolidated statement of financial position and the consolidated statements of comprehensive income are summarized as follows:-

Unit : Million Baht

Statement of Financial Position	Dec 31, 2017	Jan 1, 2017
Assets		
Total Assets - Previously Reported	94,224.83	96,391.09
Derivative Assets Increase / (Decrease)	143.51	488.56
Investments in Associates and Joint Ventures Increase / (Decrease)	(573.93)	(785.71)
Total Assets - Restated	93,794.41	96,093.94
Liabilities		
Total Liabilities - Previously Reported	30,943.65	33,938.32
Derivative Liabilities Increase / (Decrease)	3,838.44	3,872.25
Deferred Tax Liabilities Increase / (Decrease)	2.82	0.70
Total Liabilities - Restated	34,784.91	37,811.27
Equity		
Total Equity - Previously Reported	63,281.18	62,452.77
Retained Earnings Increase / (Decrease)	(3,109.45)	(3,041.29)
Other Components of Equity Increase / (Decrease)	(472.33)	(488.75)
Non-Controlling Interests Increase / (Decrease)	(689.90)	(640.06)
Total Equity - Restated	59,009.50	58,282.67

Unit : Million Baht

Statement of comprehensive income	Y2017	
	Quarter 3	Quarter 1-3
Profit Attributable to Owner of the Parent - Previously Reported	1,861.07	5,420.50
Finance Costs (Increase) / Decrease	169.77	(127.70)
Share of Profit of Associates and Joint Ventures Increase / (Decrease)	40.28	(7.58)
Income Tax Expense (Increase) / Decrease	(0.52)	(2.05)
Non-controlling interests (Increase) / Decrease	(37.62)	2.31
Profit Attributable to Owner of the Parent - Restated	2,032.98	5,285.48

2. Operation performance according to consolidated financial statement

For the three-month period (July 1, 2018 – September 30, 2018)

Unit : Million Baht

	Quarter 3		Increase (Decrease)	%
	2018	2017 *		
Revenue from sales and rendering of services (excluding Fuel Cost)	1,719.03	1,768.59	(49.56)	(2.8)
Revenue from financial leases	814.45	975.56	(161.11)	(16.5)
Share of profit of associates and joint ventures	1,084.03	1,000.63	83.40	8.3
Management Service Income	59.79	61.03	(1.24)	(2.0)
Interest income and dividend income	134.31	113.02	21.29	18.8
Other income	7.95	99.57	(91.62)	(92.0)
Total revenues	3,819.56	4,018.40	(198.84)	(4.9)
Cost of sales and rendering of services (excluding Fuel Cost)	1,128.15	1,302.41	(174.26)	(13.4)
Administrative expenses	384.52	396.63	(12.11)	(3.1)
Finance costs	337.54	204.63	132.91	65.0
Income tax expense	257.16	263.12	(5.96)	(2.3)
Total expenses	2,107.37	2,166.79	(59.42)	(2.7)
	1,712.19	1,851.61	(139.42)	(7.5)
Non-controlling Interests	-	(19.28)	19.28	100.0
Profit Attributable to Owner of the Company before exchange rate	1,712.19	1,832.33	(120.14)	(6.6)
Gain (loss) on exchange rate	(31.66)	200.65	(232.31)	(115.8)
Profit Attributable to Owner of the Company	1,680.53	2,032.98	(352.45)	(17.3)
Earnings per share (Baht)	1.16	1.40		
Fuel Cost	8,959.70	8,339.72		

* Restated

The operating result according to the consolidated financial statements for the 3rd quarter of 2018 showed the profit (attributable to owners of the Company) of Baht 1,680.53 million or Baht 1.16 per share, decreasing by Baht 352.45 million, or 17.3 percent, compared to the profit of Baht 2,032.98 million or Baht 1.40 per share of the 3rd quarter of 2017, the significant transactions were as follows:-

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

In the 3rd quarter of 2018, the Company recorded loss on exchange rate of Baht 31.66 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 200.65 million in the 3rd 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 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the 3rd quarter of 2018 was Baht 814.45 million, decreasing by Baht 161.11 million or 16.5 percent from Baht 975.56 million in the 3rd quarter of 2017. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

2.3 Other income

Other income for the 3rd quarter of 2018 was Baht 7.95 million, decreasing by Baht 91.62 million or 92.0 percent from Baht 99.57 million in the 3rd quarter of 2017. The main reason was, in the 3rd quarter of 2017, RATCH-Australia Corporation Company Limited, a subsidiary, received Business Interruption Claim of Starfish Hill Wind Power Plant in the amount of Baht 36.85 million. In addition, in the 3rd quarter of 2017, Ratchaburi Electricity Generating Company Limited received compensation from an insurance company for the equipment failure of Tri Energy Power Plant in the amount of Baht 16.92 million.

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

Cost of sales and rendering of services for the 3rd quarter of 2018 was Baht 1,128.15 million (excluding fuel costs of Baht 8,959.70 million), decreasing by Baht 174.26 million, or 13.4 percent from the cost of sales and rendering of services in the 3rd quarter of 2017 in the amount of Baht 1,302.41 million (excluding fuel costs of Baht 8,339.72 million). The main reason was from the decrease in cost of sales of Ratchaburi Electricity Generating Company Limited by Baht 106.80 million, as the shutdowns for planned maintenance during the year 2018 were less than those of the previous year.

2.5 Share of profits of associates and joint ventures

Share of profits in associates and joint ventures for the 3rd quarter of 2018 was Baht 1,084.03 million, increasing by Baht 83.40 million or 8.3 percent from Baht 1,000.63 million in the 3rd quarter of 2017. The main reason was the profit of SouthEast Asia Energy Ltd., a joint venture, in the portion of 33.33 percent, increased in the amount of Baht 124.22 million, attributing the increase principally to the higher of water level in Nam Ngum 2 Dam and its higher electricity generation.

3. Operation performance according to consolidated financial statement

For the nine-month period (January 1, 2018 – September 30, 2018)

Unit : Million Baht

	Quarter 1-3		Increase (Decrease)	%
	2018	2017 *		
Revenue from sales and rendering of services (excluding Fuel Cost)	4,861.45	5,267.90	(406.45)	(7.7)
Revenue from financial leases	2,553.30	3,053.43	(500.13)	(16.4)
Share of profit of associates and joint ventures	3,700.02	2,862.85	837.17	29.2
Management Service income	178.49	184.77	(6.28)	(3.4)
Interest income and dividend income	334.17	319.14	15.03	4.7
Other incomes	44.92	241.32	(196.40)	(81.4)
Total revenues	11,672.35	11,929.41	(257.06)	(2.2)
Cost of sales and rendering of services (excluding Fuel Cost)	3,486.51	3,973.53	(487.02)	(12.3)
Administrative expenses	1,162.27	1,222.06	(59.79)	(4.9)
Finance costs	902.38	1,272.11	(369.73)	(29.1)
Income tax expense	650.28	744.96	(94.68)	(12.7)
Total expenses	6,201.44	7,212.66	(1,011.22)	(14.0)
	5,470.91	4,716.75	754.16	16.0
Non-controlling Interests	18.63	87.05	(68.42)	(78.6)
Profit Attributable to Owner of the Company before exchange rate	5,489.54	4,803.80	685.74	14.3
Gain (loss) on exchange rate	(550.55)	481.67	(1,032.22)	(214.3)
Profit Attributable to Owner of the Company	4,938.99	5,285.47	(346.48)	(6.6)
Earnings per share (Baht)	3.41	3.65		
Fuel Cost	23,796.03	23,504.83		

* Restated

The operating result, for the nine-month period of the year 2018, without consideration of the effect of foreign exchange rate, showed the profit (attributable to owners of the Company) of Baht 5,489.54 million, compared to the profit of Baht 4,803.80 million of the nine-month period of the year 2017 (restated), increasing by Baht 685.74 million, or 14.3 percent. Considering the effect of foreign exchange rate, the operating result according to the consolidated financial statements for the nine-month period of the year 2018 showed the profit (attributable to owners of the Company) of Baht 4,938.99 million or Baht 3.41 per share, decreasing by Baht 346.48 million or 6.6 percent, compared to the profit of Baht 5,285.47 million or Baht 3.65 per share of the nine-month period of the year 2017 (restated). The significant transactions were as follows:-

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

In the nine-month period of the year 2018, the Company recorded loss on exchange rate of Baht 550.55 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 481.67 million in the nine-month period of the year 2017 due to the appreciation of AUD currency in relative to USD currency, resulting in the increase of net asset value in AUD currency.

3.2 Revenue from Finance Leases Contracts

Revenue from finance leases contracts for the nine-month period of the year 2018 was Baht 2,553.30 million, decreasing by Baht 500.13 million or 16.4 percent from Baht 3,053.43 million in the nine-month period of the year 2017. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

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

Revenue from sales and rendering of services for the nine-month period of the year 2018 was Baht 4,861.45 million (excluding fuel costs of Baht 23,796.03 million), decreasing by Baht 406.45 million or 7.7 percent from revenue from sales and rendering of services in the nine-month period of the year 2017 of Baht 5,267.90 million (excluding fuel costs of Baht 23,504.83 million). The main reason was the decrease in revenue from sales of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 314.54 million due to the decrease in Base Availability Credit in 2018 compared to that of 2017, as specified in the Power Purchase Agreement.

3.4 Other income

Other income for the nine-month period of the year 2018 was Baht 44.92 million, decreasing by Baht 196.40 million or 81.4 percent from Baht 241.32 million in the nine-month period of the year 2017. The main reason was, in the nine-month period of the year 2017, Ratchaburi Electricity Generating Company Limited received Business Interruption Claim and compensation from an insurance company for the equipment failure of Tri Energy Power Plant in the total amount of Baht 102.53 million. In addition, in the nine-month period of the year 2017, RATCH-Australia Corporation Company Limited, a subsidiary, received Business Interruption Claim of Starfish Hill Wind Power Plant in the amount of Baht 36.85 million.

3.5 Share of profits of associates and joint ventures

Share of profits in associates and joint ventures for the nine-month period of the year 2018 was Baht 3,700.02 million, increasing by Baht 837.17 million or 29.2 percent from Baht 2,862.85 million in the nine-month period of the year 2017. The main reasons were as follows:-

3.5.1 The profit of Hongsa Power Company Limited ("HPC"), a joint venture, in a portion of 40 percent, increased in the amount of Baht 785.10 million. The main reason was due to the fact that the loss on exchange rate in the nine-month period of the year 2018 was in an amount of Baht 43.93 million while that in the nine-month period of the year 2017 was in an amount of Baht 732.58 million. However, without consideration of foreign exchange rate effect, the profit increased in the amount of Baht 96.45 million, as Hongsa Power Plants generated more electricity than the same period of the previous year.

3.5.2 The profit of SouthEast Asia Energy Ltd., a joint venture, in the portion of 33.33 per cent, increased in the amount of Baht 117.77 million. The main reason was, the higher of water level in Nam Ngum 2 Dam in the nine-month period of the year 2018, comparing with that of the same period of the previous year, resulted in the increase in electricity generation.

3.5.3 The profit of Ratchaburi Power Company Limited, a joint venture, in a portion of 25 percent, decreased in the amount of Baht 101.80 million. The main reason was the decrease in revenue from finance lease contracts in the amount of Baht 89.84 million, in accordance with the Effective Interest Method.

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

Cost of sale and rendering of services for the nine-month period of the year 2018 was Baht 3,486.51 million (excluding fuel costs of Baht 23,796.03 million), decreasing by Baht 487.02 million, or 12.3 percent from the cost of sale and rendering of services in the nine-month period of the year 2017 in the amount of Baht 3,973.53 million (excluding fuel costs of Baht 23,504.83 million). The main reason was from the decrease in cost of sale of Ratchaburi Electricity Generating Company Limited by Baht 347.73 million, as the shutdowns for planned maintenance during the year 2018 were less than those of the previous year.

3.7 Finance Costs

Finance costs for the nine-month period of the year 2018 was Baht 902.38 million, decreasing by Baht 369.73 million or 29.1 percent from Baht 1,272.11 million in the nine-month period of the year 2017. The main reason was the change in accounting policies decreased finance costs in the amount of Baht 312.44 million resulting from the change in fair value of derivatives.

4. Analysis of Statements of Financial Position

4.1 Analysis of Assets

As at September 30, 2018, the total assets were Baht 103,011.03 million, increasing by Baht 9,216.62 million or 9.8 percent from Baht 93,794.41 million as at December 31, 2017. The details were as follows:

	(Million Baht)			
	Sep 30, 2018	Dec 31, 2017 *	Increase (Decrease)	%
Current assets	29,312.73	23,542.13	5,770.60	24.5
Non-current assets	73,698.30	70,252.28	3,446.02	4.9
Total Assets	103,011.03	93,794.41	9,216.62	9.8

* Restated

4.1.1 Cash and cash equivalents increased in the amount of Baht 6,108.96 million. The details are described in no.5.

4.1.2 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 187.60 million.

4.1.3 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of Baht 1,813.85 million, as the electricity sales in August and September 2018 were higher than the electricity sales in November and December 2017.

4.1.4 Financial lease receivables from related party decreased in the amount of Baht 2,597.86 million.

4.1.5 The Company had invested in the MRT Pink Line Project and the MRT Yellow Line Project in the total amount of Baht 860 Million.

4.2 Analysis of Liabilities

As at September 30, 2018, total liabilities were Baht 43,233.51 million, increasing by Baht 8,448.60 million or 24.3 percent from Baht 34,784.91 million as at December 31, 2017. The details were as follows:

(Million Baht)

	Sep 30, 2018	Dec 31, 2017 *	Increase (Decrease)	%
Current Liabilities	12,708.82	9,650.40	3,058.42	31.7
Non-Current Liabilities	30,524.69	25,134.51	5,390.18	21.4
Liabilities	43,233.51	34,784.91	8,448.60	24.3

* Restated

4.2.1 RATCH-Australia Corporation Limited, a subsidiary, received long-terms loan from financial institutions during the period in the net amount of AUD 386.68 million for corporate purpose and for Mount Emerald Wind Farm Project and Collinsville Solar Power Project.

4.2.2 In March 2018, RH International (Singapore) Corporation Pte. Limited, a subsidiary, partially repurchased existing notes that will be due in 2019 in aggregate principal amount of USD 193 million, and completed its issuance and offering of USD 300 million notes with a tenor of 10 years (maturity date in 2028), and a fixed interest rate of 4.50 percent per annum.

4.2.3 Trade accounts payable of Ratchaburi Electricity Generating Company Limited, a subsidiary increased in the amount of Baht 1,258.65 million as Ratchaburi Power Plants generated more electricity in August and September 2018 than that of in November and December 2017, resulting in the increase in fuel consumption.

4.2.4 On May 3, 2018, RH International (Singapore) Corporation Pte. Limited (“RHIS”) acquired shares from Broadspectrum Pty Limited to increase investment proportion in RATCH-Australia Corporation Limited from 80 percent to 100 percent, and RHIS repaid long-term loans to Broadspectrum Pty Limited in the amount of AUD 39.75 million.

4.3 Analysis of Equity

As at September 30, 2018, equity was Baht 59,777.52 million, increasing by Baht 768.02 million or 1.3 percent from Baht 59,009.50 million as at December 31, 2017. The main reasons were as follows:

4.3.1 The profit of the nine-month period of the year 2018 in the amount of Baht 4,938.99 million

4.3.2 The dividend payment during the nine-month period of the year 2018 decreased retained earnings in the amount of Baht 3,480.00 million.

4.3.3 Change in fair value of the investment in EDL-Generation Public Company decreased the equity in the amount of Baht 409.78 million.

5. Analysis of Cash Flows

Cash and cash equivalents of the Company and its subsidiaries as at September 30, 2018 were Baht 15,396.42 million, increasing by Baht 6,108.96 million from Baht 9,287.46 million on December 31, 2017. The details were summarized below:

	(Million Baht)
Net cash from operating activities	5,398.78
Net cash used in investing activities	(3,176.58)
Net cash from financing activities	3,573.11
Effect of exchange rate changes on balances held in foreign currencies	313.65
Net cash increase during the period	<u>6,108.96</u>

5.1 Net cash from operating activities increased cash flow in the amount of Baht 5,398.78 million. The reason was the operating result of the nine-month period of the year 2018 improved cash position by Baht 3,668.33 million, together with the change in operating assets and liabilities in the amount of Baht 1,730.45 million.

5.2 Net cash used in investing activities decreased cash flow in the amount of Baht 3,176.58 million. The main reasons were as follows:-

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 187.60 million.

5.2.2 The Company had invested in the MRT Pink Line Project and the MRT Yellow Line Project in the total amount of Baht 860 Million.

5.2.3 The Company received dividends from associates and joint ventures in the total amount of Baht 2,362.89 million.

5.3 Net cash from financing activities increased cash flow in the amount of Baht 3,573.11 million. The main reasons were as follows:-

5.3.1 RH International (Singapore) Corporation Pte. Limited, a subsidiary, repurchased existing notes in aggregate principal amount of USD 193 million, and completed its issuance and offering of USD 300 million notes. The details are described in No. 4.2.2.

5.3.2 RATCH-Australia Corporation Limited, a subsidiary, received long-terms loan from financial institutions during the period in the net amount of AUD 386.68 million for corporate purpose and for Mount Emerald Wind Farm Project and Collinsville Solar Power Project.

5.3.3 The dividend payment to shareholders during the period in the amount of Baht 3,477.26 million.

5.3.4 RATCH-Australia Corporation Limited, a subsidiary, unwinded its interest rate swap contracts with financial institutions in Australia and incurred the unwinding cost in the amount of Baht 3,058.60 million.

5.3.5 The Company paid for interest expenses in the amount of Baht 1,214.39 million.

5.3.6 On May 3, 2018, RH International (Singapore) Corporation Pte. Limited (“RHIS”) acquired shares from Broadspectrum Pty Limited to increase investment proportion in RATCH-Australia Corporation Limited from 80 percent to 100 percent, and RHIS repaid long-term loans to Broadspectrum Pty Limited in the amount of AUD 39.75 million.

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

Ratios		Quarter 3	
		2018	2017 **
1) Current Ratio	(Times)	2.31	2.20
2) Profit to Total Revenue (excluded fuel costs)	(%)	44.83	46.08
3) Return on Equity ***	(%)	10.59	9.43
4) Return on Assets ***	(%)	6.28	5.75
5) EBITDA *	(Million Baht)	2,611	2,557
6) EBITDA to Total Assets	(%)	2.53	2.67
7) Debt to Equity Ratio	(Times)	0.72	0.62
8) Debt Service Coverage Ratio	(Times)	7.63	1.67
9) Book Value per Share	(Baht)	41.23	40.47
* Not included the change in lease receivable	(Million Baht)	2,672.48	2,919.97

** Restated

*** Data for 12-month period