

RATCH Group Public Company Limited

Management Discussion and Analysis

For the 1st Quarter Ended 31 March, 2019



(Translation)

1. Significant events of the 1st quarter of 2019

1.1 The signing of the shareholders agreement to invest in Underground Optic Fiber Network Project

On February 5, 2019, the Company and ALT Telecom Public Company Limited had entered into a Shareholders Agreement for the participation in the Underground Optic Fiber Network Project; the shareholding proportion is 49 percent and 51 percent, respectively. Both investors agreed to establish a joint venture company in Thailand with the registered capital of Baht 1 million, divided into 100,000 ordinary shares, valuing at Baht 10 each. The capital will be fully paid, and is expected to be completed by May 2019.

1.2 Signing of financial documents for Collector Wind Farm in the Commonwealth of Australia

On March 19, 2019, Collector Wind Farm Pty Ltd, a wholly owned subsidiary of RATCH-Australia Corporation Pty Ltd, had signed a binding debt documents with Clean Energy Finance Corporation, the lender, for a debt facility of AUD 179 million to use in the construction and development of the Collector Wind Farm, with capacity of 226.8 megawatts, located in New South Wales, the Commonwealth of Australia. The project cost is approximately AUD 359 million. It is scheduled to enter construction in the first half of 2019 and is anticipated to commence operations in 2020.

1.3 Signing of financial agreements of Riau Combined-Cycle Power Plant Project in the Republic of Indonesia

On March 20, 2019, PT Medco Ratch Power Riau, an indirect joint venture that the Company held a 49 percent stake through RH International (Singapore) Corporation Pte. Limited, the Company's subsidiary, had signed loan agreement and other related financial agreements with financial institutions. The total loan amount is USD 222 million for the period of 20 years. The purpose of the loan is to use in the construction and development of the 275 megawatts Riau Combined-Cycle Power Plant Project in the Republic of Indonesia, with a 20-year power purchase agreement with the Republic of Indonesia's electricity authority, PT PLN (PERSERO). The Project is expected to commence commercial operation in 2021.

1.4 Commercial Operation Commencement of Collinsville Solar PV Power Station in the Commonwealth of Australia

On March 21, 2019, Collinsville Solar Power Project, with capacity of 42.50 megawatts, which the Company is investing in through Collinsville Solar PV Pty Ltd, an indirect subsidiary that is wholly owned by RATCH-Australia Corporation Pty Ltd has commenced commercial operations and recognition of benefit as per the Power Purchase Agreement. 70 percent of the generated electricity is sold to Alinta Energy, the power purchaser under the PPA, while the remaining 30 percent is sold into the Commonwealth of Australia's National Electricity Market.

1.5 Change of the Company's Name and Seal

On April 12, 2019, the 2019 Shareholders' Annual General Meeting of the Company had approved the change of the Company's name and seal from Ratchaburi Electricity Generating Holding Public Company Limited to RATCH Group Public Company Limited. The Company has already registered the changes to the Department of Business Development, Ministry of Commerce on April 17, 2019. In this regard, the Company still uses the same stock symbol "RATCH".

2. Operation performance according to consolidated financial statement

Unit : Million Baht

	Quarter 1		Increase (Decrease)	%
	2019	2018		
Revenue from sales and rendering of services (excluding fuel cost)	2,058.80	1,554.21	504.59	32.5
Revenue from finance lease contract	750.86	885.23	(134.37)	(15.2)
Share of profit of associates and joint ventures	1,081.13	888.83	192.30	21.6
Management service income	56.03	59.50	(3.47)	(5.8)
Interest income and dividend income	55.28	32.09	23.19	72.3
Other incomes	41.89	20.49	21.40	104.4
Total revenues	4,043.99	3,440.35	603.64	17.5
Cost of sales and rendering of services (excluding fuel cost)	1,218.84	1,194.84	24.00	2.0
Administrative expenses	340.41	405.63	(65.22)	(16.1)
Finance costs	481.02	161.78	319.24	197.3
Income tax expense	300.49	229.09	71.40	31.2
Total expenses	2,340.76	1,991.34	349.42	17.5
	1,703.23	1,449.01	254.22	17.5
Non-controlling Interests	-	21.67	(21.67)	(100.0)
Profit attributable to owner of the Company before exchange rate	1,703.23	1,470.68	232.55	15.8
Gain (loss) on foreign exchange	38.03	(344.10)	382.13	111.1
Profit attributable to owner of the Company	1,741.26	1,126.58	614.68	54.6
Earnings per share (Baht)	1.20	0.78		
Fuel Cost	7,186.26	6,539.55		

The operating result according to the consolidated financial statement for the 1st quarter of 2019 showed the profit (attributable to owners of the Company) of Baht 1,741.26 million or Baht 1.20 per share, increasing by Baht 614.68 million, or 54.6 percent, compared to the profit of Baht 1,126.58 million or Baht 0.78 per share of the 1st quarter of 2018. The operating result according to the consolidated financial statement for the 1st quarter of 2019, without consideration of the effect of foreign exchange gain (loss) of the Company and its subsidiaries, showed the profit of Baht 1,703.23 million, compared to the profit of Baht 1,470.68 million of the 1st quarter of 2018, increasing by Baht 232.55 million, or 15.8 percent. The significant transactions were as follows:-

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

In the 1st quarter of 2019, the Company recorded gain on foreign exchange of Baht 38.03 million. The main reason was from loan to related parties in AUD currency. As AUD currency appreciated in relative to USD currency, the asset value in AUD currency increased. In contrast, the Company recorded loss on exchange rate of Baht 344.10 million in the 1st quarter of 2018 due to the depreciation of AUD currency in relative to USD currency, resulting in the decrease of asset value in AUD currency.

2.2 Revenue from sales and rendering of services (excluding fuel costs)

Revenue from sales and rendering of services for the 1st quarter of 2019 was Baht 2,058.80 million (excluding fuel costs of Baht 7,186.26 million), increasing by Baht 504.59 million or 32.5 percent from revenue from sales and rendering of services in the 1st quarter of 2018 of Baht 1,554.21 million (excluding fuel costs of Baht 6,539.55 million). The main reason was the increase in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 332.79 million due to the increase in Base Availability Credit in 2019 compared to that of 2018, as specified in the Power Purchase Agreement. Additionally, revenue from sale of RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of Baht 171.08 million, due to the commencement of commercial operation of Mount Emerald Wind Farm Project and Collinsville Solar Power Project on December 12, 2018 and March 21, 2019; respectively.

2.3 Share of profits of associates and joint ventures

Share of profits of associates and joint ventures for the 1st quarter of 2019 was Baht 1,081.13 million, increasing by Baht 192.30 million or 21.6 percent from Baht 888.83 million in the 1st quarter of 2018. The main reason was that the share of profits from Hongsa Power Company Limited ("HPC") and Phu Fai Mining Company Limited, joint ventures in proportion of 40 and 37.5 percent, respectively; increased in the total amount of Baht 211.69 million. The main reason was that during the 1st quarter of 2018, HPC recorded loss on exchange rate in the amount of Baht 348.21 million, due to the depreciation of USD currency. In contrast, during the 1st quarter of 2019, HPC had adopted accounting policies for derivatives and hedge accounting, relating to Expenditure Hedging, resulting in decrease of foreign exchange effect.

2.4 Revenue from finance leases contracts

Revenue from finance lease contracts for the 1st quarter of 2019 was Baht 750.86 million, decreasing by Baht 134.37 million or 15.2 percent from Baht 885.23 million in the 1st quarter of 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

2.5 Finance costs

Finance costs for the 1st quarter of 2019 was Baht 481.02 million, increasing by Baht 319.24 million or 197.3 percent from Baht 161.78 million in the 1st quarter of 2018. The increase in finance cost of Baht 378.44 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

3. Analysis of statement of financial position

3.1 Analysis of assets

As at March 31, 2019, the total assets were Baht 103,185.80 million, increasing by Baht 1,933.90 million or 1.9 percent from Baht 101,251.90 million as at December 31, 2018. The details were as follows:

(Million Baht)

	Mar 31, 2019	Dec 31, 2018	Increase (Decrease)	%
Current assets	27,673.93	23,160.90	4,513.03	19.5
Non-current assets	75,511.87	78,091.00	(2,579.13)	(3.3)
Total Assets	103,185.80	101,251.90	1,933.90	1.9

3.1.1 Cash and cash equivalents increased in the amount of Baht 2,784.47 million. The details are described in no.4, while current investments decreased in the amount of Baht 1,166.26 million.

3.1.2 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of Baht 2,241.84 million, as the electricity sales in February and March 2019 were higher than the electricity sales in November and December 2018.

3.1.3 Investments in associates and joint ventures decreased in the amount of Baht 1,349.31 million. The main reasons were from dividend income in the amount of Baht 1,708.96 million and exchange rate adjustment in the amount of Baht 406.38 million. On the other hand, the share of profits contributed during the period in the total amount of Baht 1,081.13 million.

3.2 Analysis of liabilities and equity

As at March 31, 2019, total liabilities and equity were Baht 103,185.80 million, increasing by Baht 1,933.90 million or 1.9 percent from Baht 101,251.90 million as at December 31, 2018. The details were as follows:

(Million Baht)

	Mar 31, 2019	Dec 31, 2018	Increase (Decrease)	%
Liabilities	42,522.30	41,315.88	1,206.42	2.9
Equity	60,663.50	59,936.02	727.48	1.2
Total Liabilities and Equity	103,185.80	101,251.90	1,933.90	1.9

3.2.1 Liabilities increased in the amount of Baht 1,206.42 million, the main reason was trade accounts payable of Ratchaburi Electricity Generating Company Limited increased in the amount of Baht 1,395.42 million as Ratchaburi power plants generated more electricity in February and March 2019 than that in November and December 2018, resulting in the increase in fuel consumption.

3.2.2 Equity increased in the amount of Baht 727.48 million. The main reasons were as follows:

- (1) The profit of the 1st quarter of 2019 in the amount of Baht 1,741.26 million
- (2) Other components of equity decreased in the amount of Baht 829.99 million. The main reason was, currency translation differences decrease equity in the amount of Baht 298.47 million. In addition, the cash flow hedge reserve decreased equity in the amount of Baht 276.10 million.

4. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at March 31, 2019 were Baht 14,479.72 million, increasing by Baht 2,784.47 million from Baht 11,695.25 million on December 31, 2018. The details were summarized below:

	(Million Baht)
Net cash from operating activities	899.48
Net cash from investing activities	2,328.99
Net cash used in financing activities	(369.14)
Effect of exchange rate changes on cash and cash equivalents	(74.86)
Net cash increase during the period	<u><u>2,784.47</u></u>

4.1 Net cash from operating activities increased cash flow in the amount of Baht 899.48 million. The reason was the operating result of the 1st quarter of 2019 improved cash position by Baht 1,670.15 million, adjusting by the change in operating assets and liabilities in the amount of Baht -770.67 million.

4.2 Net cash from investing activities increased cash flow in the amount of Baht 2,328.99 million. The main reasons were as follows:-

4.2.1 The Company received dividends from associates and joint ventures in the total amount of Baht 1,585.41 million.

4.2.2 The Company received cash from current investments in the amount of Baht 1,166.56 million.

4.3 Net cash used in financing activities decreased cash flow in the amount of Baht 369.14 million. The main reason was, the Company paid for interest expenses in the amount of Baht 514.40 million.

5. Significant financial ratios (excluded the effect of foreign exchange rate)

Ratios		Quarter 1	
		2019	2018
1) Current Ratio	(Times)	2.36	3.02
2) Profit to Total Revenue (excluded fuel costs)	(%)	42.12	42.12
3) Return on Equity **	(%)	11.10	10.79
4) Return on Assets **	(%)	6.65	6.60
5) EBITDA *	(Million Baht)	2,834	2,152
6) EBITDA to Total Assets	(%)	2.77	2.25
7) Debt to Equity Ratio	(Times)	0.70	0.65
8) Debt Service Coverage Ratio	(Times)	6.96	5.66
9) Book Value per Share	(Baht)	41.84	41.26
* Not included the change in lease receivable	(Million Baht)	418.18	898.36

** Data for 12-month period