

RATCH Group Public Company Limited
Management Discussion and Analysis

For the Three-month and Six-month Periods Ended 30 June, 2019



(Translation)

1. Significant events of the 2nd quarter of 2019

1.1 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".

1.2 Establishment of Hin Kong Power Holding Company Limited and Hin Kong Power Company Limited

On May 24, 2019, the Company has established Hin Kong Power Holding Company Limited ("HKH"), which is the Company's wholly owned subsidiary. And on May 28, 2019, the Company has established Hin Kong Power Company Limited ("HKP"), which is fully owned by HKH. Each company's registered capital is Baht 4,000,000 divided into 400,000 ordinary shares, valuing at Baht 10 each and fully paid.

On July 12, 2019, HKP has entered into the Power Purchase Agreement for Hin Kong Power Project in Hin Kong Sub-district, Muang District, Ratchaburi Province with Electricity Generating Authority of Thailand. The agreement is effective from the execution date until the 25th year from the commercial operation date.

The project is a combined-cycle power plant project that used natural gas as the main fuel with total contracted capacity of 1,400 megawatts (700 megawatts per unit) according to the Power Purchase Agreement. It is scheduled for commercial operation in 2024 and 2025 respectively. At present, the project is in the process of preparing the Environmental Impact Assessment.

1.3 Commercial operations of Berkprai Cogeneration SPP Power Plant

On June 1, 2019, Berkprai Cogeneration SPP Power Plant with power generation capacity of approximately 100 megawatts and steam generation capacity of approximately 15 tons per hour, located in Berkprai Sub-district, Ban Pong District, Ratchaburi Province, operated by Berkprai Cogeneration Company Limited (an indirect joint venture which the Company held 35 percent stake through Ratchaburi Electricity Generating Company Limited), has commenced commercial operations.

1.4 Establishment of a joint venture company to invest in underground optic fiber network project

On June 27, 2019, the Company and ALT Telecom Public Company Limited (“ALT”) have registered a joint venture company to invest in underground optic fiber network project. The company named “Smart Infranet Company Limited”. Its registered capital of Baht 1 million, divided into 100,000 ordinary shares, valuing at Baht 10 each, and the capital is fully paid. The Company held 51 percent stake and ALT held 49 percent stake.

2. Operation performance according to consolidated financial statement

For the three-month period (April 1, 2019 – June 30, 2019)

Unit : Million Baht

	Quarter 2		Increase (Decrease)	%
	2019	2018		
Revenue from sales and rendering of services (excluding fuel cost)	2,135.19	1,588.22	546.97	34.4
Revenue from finance lease contract	738.69	853.62	(114.93)	(13.5)
Share of profit of associates / joint ventures	1,281.83	1,727.16	(445.33)	(25.8)
Other incomes	232.17	243.44	(11.27)	(4.6)
Total revenues	4,387.88	4,412.44	(24.56)	(0.6)
Cost of sales and rendering of services (excluding fuel cost)	1,265.51	1,163.53	101.98	8.8
Administrative expenses	480.28	372.11	108.17	29.1
Finance costs	250.93	403.07	(152.14)	(37.7)
Income tax expense	215.17	164.03	51.14	31.2
Total expenses	2,211.89	2,102.74	109.15	5.2
	2,175.99	2,309.70	(133.71)	(5.8)
Non-controlling Interests	-	(3.04)	3.04	100.0
Profit before exchange rate - the Company and subsidiaries	2,175.99	2,306.66	(130.67)	(5.7)
Gain (loss) on foreign exchange - the Company and subsidiaries	(223.68)	(174.79)	(48.89)	(28.0)
Profit attributable to owner of the Company	1,952.31	2,131.87	(179.56)	(8.4)
The effect of exchange rate				
- Gain (loss) on foreign exchange - the Company and subsidiaries	(223.68)	(174.79)	(48.89)	(28.0)
- Gain (loss) on foreign exchange - associates / joint ventures	(86.78)	554.62	(641.40)	(115.6)
Profit attributable to owner of the Company before exchange rate	2,262.77	1,752.04	510.73	29.2
<i>Fuel Cost</i>	<i>7,930.03</i>	<i>8,296.77</i>		

The operating result according to the consolidated financial statement for the 2nd quarter of 2019 showed the profit (attributable to owners of the Company) of Baht 1,952.31 million or Baht 1.35 per share, decreasing by Baht 179.56 million, or 8.4 percent, compared with the profit of Baht 2,131.87 million or Baht 1.47 per share of the 2nd quarter of 2018. The operating result according to the consolidated financial statement for the 2nd quarter of 2019, without consideration of the effect of foreign exchange gain (loss) of the Company, subsidiaries, associates, and joint ventures showed the profit of Baht 2,262.77 million, compared with the profit of Baht 1,752.04 million of the 2nd quarter of 2018, increasing by Baht 510.73 million, or 29.2 percent. The significant transactions were as follows:-

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

Revenue from sales and rendering of services for the 2nd quarter of 2019 was Baht 2,135.19 million (excluding fuel costs of Baht 7,930.03 million), increasing by Baht 546.97 million or 34.4 percent from revenue from sales and rendering of services in the 2nd quarter of 2018 of Baht 1,588.22 million (excluding fuel costs of Baht 8,296.77 million). The main reason was the increase in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 196.49 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 349.98 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.

2.2 Finance costs

Finance costs for the 2nd quarter of 2019 was Baht 250.93 million, decreasing by Baht 152.14 million or 37.7 percent from Baht 403.07 million in the 2nd quarter of 2018. The decrease in finance cost of Baht 175.79 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

2.3 Revenue from finance leases contracts

Revenue from finance lease contracts for the 2nd quarter of 2019 was Baht 738.69 million, decreasing by Baht 114.93 million or 13.5 percent from Baht 853.62 million in the 2nd quarter of 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

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

Cost of sales and rendering of services for the 2nd quarter of 2019 was Baht 1,265.51 million (excluding fuel costs of Baht 7,930.03 million), increasing by Baht 101.98 million or 8.8 percent from cost of sales and rendering of services in the 2nd quarter of 2018 of Baht 1,163.53 million (excluding fuel costs of Baht 8,296.77 million). The main reason was cost of sales from RATCH-Australia Corporation Pty Ltd, a subsidiary, increased in the amount of Baht 106.33 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.

2.5 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the 2nd quarter of 2019 was Baht 1,281.83 million, decreasing by Baht 445.33 million or 25.8 percent from Baht 1,727.16 million in the 2nd quarter of 2018. The main reasons were as follows:-

(1) The share of profit from Hongsa Power Company Limited ("HPC"), a joint venture in proportion of 40 percent, decreased in the amount of Baht 371.00 million. The main reason was that during the 2nd quarter of 2018, HPC recorded gain on exchange rate in the amount of Baht 481.61 million, due to the appreciation of USD currency. In contrast, during the year 2019, HPC had adopted accounting policies for derivatives and hedge accounting, relating to Expenditure Hedging, resulting in decrease of foreign exchange effect.

(2) The share of loss from Xe-Pian Xe-Namnoy Power Company Limited ("PNPC"), a joint venture which the project is during construction, in proportion of 25 percent, increased in the amount of Baht 208.13 million. The main reason was that during the 2nd quarter of 2019, PNPC recorded loss on exchange rate in the amount of Baht 78.44 million, due to the depreciation of USD currency. In contrast, during the 2nd quarter of 2018, PNPC recorded gain on exchange rate in the amount of Baht 104.19 million, due to the appreciation of USD currency.

(3) The share of profit from Fareast Renewable Development Pte. Ltd. ("FRD"), a joint venture investing in Asahan-1 Hydroelectric Power Project in the Republic of Indonesia, in proportion of 50 percent, was Baht 59.40 million. RH International (Singapore) Corporation Pte. Ltd., a subsidiary, has purchased ordinary shares of FRD in December 2018.

(4) The share of profit from SouthEast Asia Energy Limited, a joint venture in proportion of 33.33 percent, increased in the amount of Baht 51.81 million, mainly due to the higher electricity generation.

3. Operation performance according to consolidated financial statement

For the six-month period (January 1, 2019 – June 30, 2019)

Unit : Million Baht

	Quarter 1-2		Increase (Decrease)	%
	2019	2018		
Revenue from sales and rendering of services (excluding fuel cost)	4,193.99	3,142.43	1,051.56	33.5
Revenue from finance lease contract	1,489.55	1,738.85	(249.30)	(14.3)
Share of profit of associates / joint ventures	2,362.96	2,615.99	(253.03)	(9.7)
Other incomes	355.71	355.52	0.19	0.1
Total revenues	8,402.21	7,852.79	549.42	7.0
Cost of sales and rendering of services (excluding fuel cost)	2,484.36	2,358.38	125.98	5.3
Administrative expenses	791.03	777.74	13.29	1.7
Finance costs	731.94	564.84	167.10	29.6
Income tax expense	515.66	393.12	122.54	31.2
Total expenses	4,522.99	4,094.08	428.91	10.5
	3,879.22	3,758.71	120.51	3.2
Non-controlling Interests	-	18.64	(18.64)	(100.0)
Profit before exchange rate - the Company and subsidiaries	3,879.22	3,777.35	101.87	2.7
Gain (loss) on foreign exchange - the Company and subsidiaries	(185.65)	(518.89)	333.24	64.2
Profit attributable to owner of the Company	3,693.57	3,258.46	435.11	13.4
The effect of exchange rate				
- Gain (loss) on foreign exchange - the Company and subsidiaries	(185.65)	(518.89)	333.24	64.2
- Gain (loss) on foreign exchange - associates / joint ventures	(122.10)	191.72	(313.82)	(163.7)
Profit attributable to owner of the Company before exchange rate	4,001.32	3,585.63	415.69	11.6
<i>Fuel Cost</i>	<i>15,116.29</i>	<i>14,836.32</i>		

The operating result according to the consolidated financial statement for the first six-month period of the year 2019 showed the profit (attributable to owners of the Company) of Baht 3,693.57 million or Baht 2.55 per share, increasing by Baht 435.11 million, or 13.4 percent, compared with the profit of Baht 3,258.46 million or Baht 2.25 per share of the first six-month period of the year 2018. The operating result according to the consolidated financial statement for the first six-month period of the year 2019, without consideration of the effect of foreign exchange gain (loss) of the Company, subsidiaries, associates, and joint ventures showed the profit of Baht 4,001.32 million, compared with the profit of Baht 3,585.63 million of the first six-month period of the year 2018, increasing by Baht 415.69 million, or 11.6 percent. The significant transactions were as follows:-

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

Revenue from sales and rendering of services for the first six-month period of the year 2019 was Baht 4,193.99 million (excluding fuel costs of Baht 15,116.29 million), increasing by Baht 1,051.56 million or 33.5 percent from revenue from sales and rendering of services in the first six-month period of the year 2018 of Baht 3,142.43 million (excluding fuel costs of Baht 14,836.32 million). The main reason was the increase in revenue from sale of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of Baht 529.27 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 521.07 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.

3.2 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the first six-month period of the year 2019 was Baht 2,362.96 million, decreasing by Baht 253.03 million or 9.7 percent from Baht 2,615.99 million in the first six-month period of the year 2018. The main reasons were as follows:-

3.2.1 The share of loss from Xe-Pian Xe-Namnoy Power Company Limited ("PNPC"), a joint venture which the project is during construction, in proportion of 25 percent, increased in the amount of Baht 268.15 million. The main reason was that during the first six-month period of the year 2019, PNPC recorded loss on exchange rate in the amount of Baht 136.64 million, due to the depreciation of USD currency. In contrast, during the first six-month period of the year 2018, PNPC recorded gain on exchange rate in the amount of Baht 13.12 million, due to the appreciation of USD currency.

3.2.2 The share of profit from Hongsa Power Company Limited ("HPC"), a joint venture in proportion of 40 percent, decreased in the amount of Baht 247.26 million. The main reason was that during the first six-month period of the year 2018, HPC recorded gain on exchange rate in the amount of Baht 133.40 million, due to the appreciation of USD currency. In contrast, during the year 2019, HPC had adopted accounting policies for derivatives and hedge accounting, relating to Expenditure Hedging, resulting in decrease of foreign exchange effect. In addition, HPC generated electricity less than in the same period of the previous year.

3.2.3 The share of profit from Fareast Renewable Development Pte Ltd (“FRD”), a joint venture investing in Asahan-1 Hydroelectric Power Project in the Republic of Indonesia, in proportion of 50 percent, was Baht 121.92 million. RH International (Singapore) Corporation Pte Ltd, a subsidiary, has purchased ordinary shares of FRD in December 2018.

3.2.4 The share of profit from SouthEast Asia Energy Limited, a joint venture in proportion of 33.33 percent, increased in the amount of Baht 79.27 million, mainly due to the higher electricity generation.

3.3 Revenue from finance leases contracts

Revenue from finance lease contracts for the first six-month period of the year 2019 was Baht 1,489.55 million, decreasing by Baht 249.30 million or 14.3 percent from Baht 1,738.85 million in the first six-month period of the year 2018. The change was due to the decreased lease receivable, calculated according to the Effective Interest Method.

3.4 Finance costs

Finance costs for the first six-month period of the year 2019 was Baht 731.94 million, increasing by Baht 167.10 million or 29.6 percent from Baht 564.84 million in the first six-month period of the year 2018. The increase in finance cost of Baht 202.66 million was from the recognition on remeasurement to fair value of the derivative according to the adopted accounting policies for derivatives and hedge accounting.

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

In the first six-month periods of the year 2018 and 2019, the Company recorded loss on foreign exchange of Baht 518.89 million and Baht 185.65 million, respectively. The main reason was from loan to related parties in AUD currency. As AUD currency depreciated in relative to USD currency, the asset value in AUD currency decreased.

4. Analysis of statement of financial position

4.1 Analysis of assets

As at June 30, 2019, the total assets were Baht 99,156.02 million, decreasing by Baht 2,095.88 million or 2.1 percent from Baht 101,251.90 million as at December 31, 2018. The details were as follows:

(Million Baht)

	Jun 30, 2019	Dec 31, 2018	Increase (Decrease)	%
Current assets	24,803.21	23,160.90	1,642.31	7.1
Non-current assets	74,352.81	78,091.00	(3,738.19)	(4.8)
Total Assets	99,156.02	101,251.90	(2,095.88)	(2.1)

4.1.1 Cash and cash equivalents decreased in the amount of Baht 722.04 million. The details are described in no.5, and current investments decreased in the amount of Baht 670.95 million.

4.1.2 Investments in associates and joint ventures decreased in the amount of Baht 1,402.06 million. The main reasons were from dividend income in the amount of Baht 2,096.16 million and exchange rate adjustment in the amount of Baht 1,101.04 million. On the other hand, the share of profit contributed during the period in the total amount of Baht 2,362.96 million.

4.1.3 Financial lease receivables from related party decreased in the amount of Baht 808.45 million.

4.1.4 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of Baht 2,426.72 million, as the electricity sales in May and June 2019 were higher than the electricity sales in November and December 2018.

4.2 Analysis of liabilities and equity

As at June 30, 2019, the total liabilities and equity were Baht 99,156.02 million, decreasing by Baht 2,095.88 million or 2.1 percent from Baht 101,251.90 million as at December 31, 2018. The details were as follows:

(Million Baht)				
	Jun 30, 2019	Dec 31, 2018	Increase (Decrease)	%
Liabilities	39,550.93	41,315.88	(1,764.95)	(4.3)
Equity	59,605.09	59,936.02	(330.93)	(0.6)
Total Liabilities and Equity	99,156.02	101,251.90	(2,095.88)	(2.1)

4.2.1 Liabilities decreased in the amount of Baht 1,764.95 million, the main reasons were as follows:

(1) RH International (Singapore) Corporation Pte Ltd “RHIS”, a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

(2) Trade accounts payable of Ratchaburi Electricity Generating Company Limited increased in the amount of Baht 1,555.54 million as Ratchaburi power plants generated more electricity in May and June 2019 than that in November and December 2018, resulting in the increase in fuel consumption.

4.2.2 Equity decreased in the amount of Baht 330.93 million. The main reasons were as follows:

(1) The profit of the first six-month period of the year 2019 in the amount of Baht 3,693.57 million

(2) The dividend payment in accordance with shareholders' resolution in the Annual General Meeting of Shareholders in April 2019 decreased retained earnings in the amount of Baht 1,812.50 million.

(3) Other components of equity decreased in the amount of Baht 2,028.21 million. The main reasons were, currency translation differences decrease equity in the amount of Baht 898.30 million; the cash flow hedge reserve decreased equity in the amount of Baht 505.42 million; and share of other comprehensive income expense of associates and joint ventures decreased equity in the amount of Baht 467.90 million.

5. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at June 30, 2019 were Baht 10,973.21 million, decreasing by Baht 722.04 million from Baht 11,695.25 million on December 31, 2018. The details were summarized below:

	(Million Baht)
Net cash from operating activities	2,922.73
Net cash from investing activities	1,105.98
Net cash used in financing activities	(4,611.46)
Effect of exchange rate changes on cash and cash equivalents	(139.29)
Net cash increase during the period	<u><u>(722.04)</u></u>

5.1 Net cash from operating activities increased cash flow in the amount of Baht 2,922.73 million. The reason was the operating result of the first six-month period of the year 2019 improved cash position by Baht 3,217.28 million, adjusting by the change in operating assets and liabilities in the amount of Baht -294.55 million.

5.2 Net cash from investing activities increased cash flow in the amount of Baht 1,105.98 million. The main reasons were as follows:-

5.2.1 The Company received dividends from associates and joint ventures in the total amount of Baht 2,203.90 million.

5.2.2 RATCH-Australia Corporation Pty Ltd, a subsidiary, paid for the construction of Collector Wind Farm Project in the amount of AUD 49.91 million.

5.3 Net cash used in financing activities decreased cash flow in the amount of Baht 4,611.46 million. The main reasons were as follows:-

5.3.1 RH International (Singapore) Corporation Pte Ltd "RHIS", a subsidiary, redeemed debenture which was due in May 2019 in the amount of USD 107 million.

5.3.2 The Company paid dividend to owners in the amount of Baht 1,812.29 million.

5.3.3 RATCH-Australia Corporation Pty Ltd, a subsidiary, received long-term loans from financial institutions during the period in the net amount of AUD 26.41 million mainly for Collector Wind Farm Project.

6. Significant financial ratios (excluded the effect of foreign exchange rate of the Company and subsidiaries)

Ratios		Quarter 2	
		2019	2018
1) Current Ratio	(Times)	2.72	2.31
2) Profit to Total Revenue (excluded fuel costs)	(%)	49.59	52.35
3) Return on Equity **	(%)	14.57	13.94
4) Return on Assets **	(%)	8.61	8.53
5) EBITDA *	(Million Baht)	3,044	3,181
6) EBITDA to Total Assets	(%)	3.01	3.16
7) Debt to Equity Ratio	(Times)	0.66	0.72
8) Debt Service Coverage Ratio	(Times)	0.75	9.21
9) Book Value per Share	(Baht)	41.11	41.55
* Not included the change in lease receivable (Million Baht)		437.88	936.84

** Data for 12-month period