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Subject Management Discussion and Analysis for the 3rd Quarter of 2019
and nine-month period ended 30 September 2019

To The President
The Stock Exchange of Thailand

We, Absolute Clean Energy Public Company Limited (“the Group”), are pleased to provide you our management discussion and analysis for the 3rd Quarter of 2019 and the nine-month period ended 30 September 2019, as follow:

Financial Performance Analysis for the period ended 30 September 2019

Sales and service income for three-month and nine-month periods ended 30 September 2019 and 2018 are presented below.

	Three-month period ended 30 September				Nine-month period ended 30 September			
	2019		2018		2019		2018	
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾
Sales of electricity	687.9	60.2	690.2	61.1	2,030.5	59.7	2,013.8	61.7
> Biomass Power Plants	658.5	57.6	664.6	58.9	1,942.9	57.2	1,935.4	59.3
> Natural Gas Power Plant	2.3	0.2	1.2	0.1	6.4	0.2	3.2	0.1
> Solid Waste Power Plant	25.3	2.2	24.4	2.1	76.8	2.2	75.2	2.3
> Solar Energy Power Plant	1.8	0.2	-	-	4.4	0.1	-	-
Revenue from service under a								
Power Purchase Agreement	407.4	35.7	396.1	35.1	1,232.8	36.3	1,118.6	34.3
Adder	30.8	2.7	30.6	2.7	94.5	2.8	94.6	2.9
Revenue from waste management	10.4	0.9	10.1	0.9	27.6	0.8	28.4	0.9
Sales of steam	6.2	0.5	2.3	0.2	13.6	0.4	6.1	0.2
Sales and service income	1,142.7	100.0	1,129.3	100.0	3,399.0	100.0	3,261.5	100.0

Remark⁽¹⁾ Percentage of total sales and service income



From the table of sales and services income above, the Group has sales of electricity, steam and service income for the three-month period ended 30 September 2019 and 2018, amounting to Baht 1,142.7 million and Baht 1,129.3 million respectively, which increased by Baht 13.4 million. From the three-month analysis, only sales of electricity from Biomass Power Plants dropped by Baht 6.1 million from planned shutdown as a result from maintenance which performed in the difference period. By the way, for the nine-month period ended 30 September 2019 and 2018, the Group has sales and service income amounting to Baht 3,399.0 million and Baht 3,261.5 million, respectively, increased by Baht 137.5 million. In which sales of biomass increase by Baht 7.5 million as a result from improving of production efficiency, lead to an increase in electricity unit produced for the nine-month period for 2019 comparing to 2018.

For Natural Gas Power Plant, part of sales will be presented as a revenue from service under a Power Purchase Agreement. During the year ended 31 December 2017, Advance Agro Asia Company Limited, an indirect subsidiary, completed the construction of a natural gas power plant in Chachoengsao and started selling electricity to the Electricity Generation Authority of Thailand. The Group assessed the Power Purchase Agreements in accordance with TFRIC 4 “Determining whether an arrangement contains a lease” and found that the agreement is finance lease. The Group then derecognized building and equipment and recognized to receivables under finance lease net of unearned financial income. Revenue from sales of electricity under the Power Purchase Agreement then recognized as a Revenue from service under a Power Purchase Agreement, under the caption of sales and service income, and Revenue from finance lease under a Power Purchase Agreement. When comparing operating results, revenue of Natural Gas Power Plant increased for both three-month and nine-month periods when compared to the last year. The reasons of increase are from improvement of unit of electricity sold by approximately 2 percent and increase in unit price which is adjusted in line with natural gas price.

Sales of steam increased by totaling Baht 7.5 million or 123 percent due to the growth of customer’s demand in steam from expanding of production line.

	Three-month period				Nine-month period			
	ended 30 September				ended 30 September			
	2019		2018		2019		2018	
	THB Mn	%	THB Mn	%	THB Mn	%	THB Mn	%
Revenue from finance lease under a								
Power Purchase Agreement	102.9	100.0	107.0	100.0	308.4	100.0	310.1	100.0
Revenue from construction under								
a concession arrangement	21.2	100.0	-	-	89.7	100.0	-	-

The group has revenue from construction under a concession arrangement for the nine-month period ended 30 September 2019 amounting to Baht 89.7 million which is the revenue from construction of Municipality Solid Waste Power Plant, an indirect subsidiary entered into contract with Krabi Municipality to provide waste management services (converting solid waste into electrical energy for 25-year period started from the date of contract). As specified in the contract, the subsidiary shall transfer building, machine and equipment to Krabi municipality without any charges when the contract ends. The Group's management assessed the agreement in accordance with TFRIC 12 'Service Concession Arrangements'. As a result, the Group's management recognized revenue from construction under a concession arrangement in accordance with percentage of completion of the fair value of assets. The Group's management also recognized cost of construction under a concession arrangement at actual cost amounting to Baht 89.7 million. No gain and loss from recognized sales and cost of construction under a concession arrangement transaction.

Cost of sales and service

Cost of sales and service for three-month and nine-month periods ended 30 September 2019 and 2018 are presented below.

Cost of sales and services	For the three-month period				For the nine-month period			
	ended 30 September				ended 30 September			
	2019		2018		2019		2018	
	THB Mn	%	THB Mn	%	THB Mn	%	THB Mn	%
Fuel materials cost	203.6	24.8	269.4	30.2	632.9	25.3	722.7	28.6
Depreciation and amortization cost	108.1	13.2	108.3	12.1	320.1	12.8	324.4	12.8
Staff cost and other benefits	37.9	4.6	40.1	4.5	122.8	4.9	113.7	4.5
Repair and Maintenance cost	32.7	4.0	39.7	4.4	106.2	4.2	128.7	5.1
Other cost	26.0	3.2	39.5	4.5	81.6	3.2	110.2	4.4
Total cost of Biomass Power Plants	408.3	49.8	497.1	55.7	1,263.6	50.4	1,399.8	55.4
Fuel materials cost	339.3	41.4	323.9	36.3	1,025.2	40.9	912.3	36.1
Depreciation and amortization cost	0.5	0.1	0.4	0.0	1.5	0.1	1.1	0.0
Staff cost and other benefits	4.6	0.6	3.9	0.5	13.7	0.5	11.7	0.5
Repair and Maintenance cost	27.9	3.4	27.8	3.1	88.7	3.5	88.6	3.5
Other cost	0.8	0.1	0.7	0.1	2.5	0.1	2.6	0.1
Total cost of Natural Gas Power Plant	373.1	45.6	356.7	40.0	1,131.6	45.1	1,016.3	40.2
Depreciation and amortization cost	13.2	1.6	15.1	1.7	43.3	1.7	45.2	1.8
Staff cost and other benefits	4.0	0.5	4.4	0.5	14.2	0.6	13.4	0.5
Repair and Maintenance cost	13.8	1.7	13.8	1.5	33.9	1.4	38.0	1.5
Other cost	5.1	0.6	5.3	0.6	14.8	0.6	16.0	0.6
Total cost of Solid Waste Power Plant	36.1	4.4	38.6	4.3	106.2	4.3	112.6	4.4
Depreciation and amortization cost	0.6	0.1	-	-	1.8	0.1	-	-
Staff cost and other benefits	0.9	0.1	-	-	2.9	0.1	-	-
Repair and Maintenance cost	0.1	0.0	-	-	0.3	0.0	-	-
Other cost	0.2	0.0	-	-	0.1	0.0	-	-
Total cost of Solar Energy Power Plants	1.8	0.2	-	-	5.1	0.2	-	-
Total cost of sales and service	819.3	100.0	892.4	100.0	2,506.5	100.0	2,528.7	100.0

From the table above, cost of sales and service for the three-month period ended 30 September 2019 decreased by Baht 73.1 million compared to the same period of 2018. The decrease of cost of sales mainly comes from Biomass Power Plants, which decreased by Baht 88.8 million for the three-month period and

decreased by Baht 136.2 million for the nine-month period. The reasons are mainly due to the improvement of fuel material management and production processes, modification and mixing of fuel material to improve combustion resulting in better heat rate and lower fuel consumption per unit and also improvement of feedstock procurement process including sourcing new types of potential feedstocks which has been studied and researched well.

However, fuel materials cost of Natural Gas Power Plant increased by Baht 112.9 million or 12.4 percent because of increase in natural gas price. By the way, the Group has been compensated the increased in gas price from EGAT in form of adjusted electricity price to be in line with natural gas price.

Gross Profit and Gross Profit Margin

	Gross Profit (THB Mn)				Gross Profit Margin (%)			
	Three-month		Nine-month		Three-month		Nine-month	
	period ended 30 September				period ended 30 September			
	2019	2018	2019	2018	2019	2018	2019	2018
Biomass Power Plants	250.1	167.7	679.2	535.9	38.0	25.2	35.0	27.7
Natural Gas Power Plant	145.8	149.7	429.6	421.4	28.1	29.6	27.5	29.3
Solid Waste Power Plant	30.3	26.5	92.7	85.6	45.7	40.7	46.6	43.2
Solar Energy Power Plant	0.1	-	(0.6)	-	5.5	-	(14.3)	-
Gross Profit by Segment	426.3	343.9	1,200.9	1,042.9	34.2	27.8	32.4	29.2

From the table above, the Group has gross profit amounting to Baht 426.3 million and Baht 343.9 million for the three-month period ended 30 September 2019 and 2018. For the nine-month period ended 30 September 2019 and 2018, the Group has gross profit amounting to Baht 1,200.9 million and Baht 1,042.9 million. Both gross profit for the three-month and nine-month periods have increased from the same period of last year. In which gross profit of Biomass Power Plants increased from an increase in sales and decrease in cost from efficient fuel management both in procurement process and production process. In addition, cost of Biomass Power Plants also decreases from effectively controlled in maintenance cost.

Gross profit of Natural Gas power plant increased mainly from increase in revenue greater than cost. The cost of fuel material, natural gas which is the main production cost, increased by 12.4 percent from both the consumption and the average gas price which increased by 9.5 percent, resulting in the total production cost

increased from the same period of last year by Baht 115.3 million. However, EGAT has compensated the increased in gas price in form of adjusted electricity price to be in line with natural gas price. Therefore, an increase in gas price has no effect on gross profit. In addition, plant heat rate of the current period is improved from the previous year, resulting in the ability to produce more electricity with the lower gas consumption.

Gross profit and gross profit margin of Solid Waste Power Plant for both three-month and nine-month periods increased from the same periods of last year because of operation management and maintenance is performed effectively in accordance with maintenance plan.

Solar Energy Power Plants are in the start-up phase with only 3 COD plants, therefore Solar Energy Power Plants segment has loss on operations. However, the first two projects have an average gross profit margin of 23-30 percent. While another project has a negative gross margin since the project has just started operations on 28 September 2019. The cost that makes gross profit of Solar Energy Power Plants negative is unallocated cost such as salary of engineer and project staff for studying and planning for projects under development. Which the Group has structure them to support new projects which is expected to operate in 1-2 years. From the reason, there are negative in gross profit Baht 0.6 million and gross profit margin 14.3 percent.

Administrative expenses

Administrative expenses for three-month and nine-month periods ended 30 September 2019 and 2018 are presented below.

Administrative expenses	For the three-month period				For the nine-month period			
	ended 30 September				ended 30 September			
	2019		2018		2019		2018	
	THB Mn	%	THB Mn	%	THB Mn	%	THB Mn	%
Staff expenses and other benefits	35.8	42.4	41.2	46.1	114.4	44.1	117.7	49.0
Professional fee and other services	13.8	16.3	12.3	13.7	44.5	17.2	35.8	14.9
Depreciation and amortization	8.1	9.6	8.0	8.9	23.7	9.2	23.2	9.7
Administrative expenses	1.8	2.1	1.7	1.9	5.4	2.1	4.9	2.0
Electricity and utilities expenses	3.8	4.5	2.9	3.2	10.3	4.0	8.2	3.4
Repair and maintenance expenses	0.4	0.5	0.2	0.3	0.8	0.3	0.7	0.3
Other administrative expenses	20.8	24.6	23.1	25.9	59.9	23.1	49.5	20.7
Total administrative expenses	84.5	100.0	89.4	100.0	259.0	100.0	240.0	100.0

For the nine-month periods ended 30 September 2019 and 2018, the Group has administrative expenses in the amount of Baht 259.0 million and Baht 240.0 million, respectively, increased by Baht 19.0 million. Administrative expenses of 2019 and 2018 are 7.6 percent and 7.4 percent to sales and service income, respectively, of which proportion of expenses is not significantly change from the same period of 2018. The reasons of increase in administrative expenses for the nine-month period ended 30 September 2019 can summarized below.

1. Professional fee and other services, increased from Baht 35.8 million for the nine-month period of 2018 to Baht 44.5 million for the nine-month of 2019, increase by Baht 8.7 million because of engineering service fee for new projects, an increase in audit fee of the Group and consulting fees for preparing to be listed on the stock exchange.

2. Other expenses, increased from Baht 49.5 million for the nine-month period of 2018 to Baht 59.9 million for the nine-month of 2019. Increased by Baht 10.4 million due to the fee from premature cancellation of operation and maintenance contract of Natural Gas Power Plant. However, the Group has considered that the termination will significantly reduce future costs. In addition, the Group has personnel who are knowledgeable and capable enough to be ready to carry out the tasks themselves.

Finance costs

For the nine-month periods ended 30 September 2019 and 2018, the Group has finance costs in the amount of Baht 325.7 million and Baht 365.5 million, respectively, decreased by Baht 39.8 million due to repayment of loan during the period. For separate financial statements, the Company has finance costs in the amount of Baht 86.5 million and Baht 0.1 million, respectively, mainly increased from interest of debentures which the Company issued in December 2018.

Tax income (expenses)

For the nine-month periods ended 30 September 2019 and 2018, the Group has tax income (expenses) in the amount of Baht 10.1 million and Baht (10.0) million, respectively. Tax income increased by Baht 20.1 million from recording temporary difference of depreciation expenses between accounting and tax.

Net profit and Net profit margin

For the nine-month periods ended 30 September 2019 and 2018, the Group has net profit in the amount of Baht 570.0 million and Baht 429.1 million, respectively. And net profit margin are 15.3 percent and 12.0 percent. The increase in net profit of Baht 140.9 million for nine-month period ended 30 September 2019 or 32.8 percent from the same period of 2018 is caused from increase in gross profit.

3. Analysis of Financial Position as at 30 September 2019

Financial Position	30 September	31 December		Change
	2019	2018	Change	
	THB Mn	THB Mn	THB Mn	%
Cash and cash equivalents	29.1	104.5	(75.4)	(72.2)
Trade and other receivables	842.6	829.1	13.5	1.6
Receivables under finance lease	3,318.6	3,422.2	(103.6)	(3.0)
Inventories	216.5	95.5	121.0	126.7
Restricted deposits at financial institutions	343.9	325.0	18.9	5.8
Investment property (net)	120.0	100.7	19.3	19.2
Property, plant and equipment (net)	7,985.4	8,129.4	(144.0)	(1.8)
Advance payments for constructions and purchases				
of fixed assets	106.3	19.7	86.6	439.6
Rights to service under concession arrangements (net)	807.4	761.0	46.4	6.1
Other assets	115.0	99.6	15.4	15.5
Total assets	13,884.8	13,886.7	(1.9)	(0.0)
Short-term loans from financial institutions	475.5	369.0	106.5	28.9
Long-term loans from financial institutions	5,412.6	5,951.4	(538.8)	(9.1)
Debentures	1,437.9	1,476.5	(38.6)	(2.6)
Trade and other payables	307.6	412.1	(104.5)	(25.4)
Other liabilities	109.6	106.1	3.5	3.3
Total liabilities	7,743.2	8,315.1	(571.9)	(6.9)
Issued and paid-up share capital	4,579.0	4,579.0	-	-
Retained earnings - unappropriated	1,585.5	1,015.5	570.0	56.1
Deficit	(22.9)	(22.9)	-	-
Total equity	6,141.6	5,571.6	570.0	10.2

Assets

Total assets as at 30 September 2019 and 31 December 2018 were Baht 13,884.8 million and Baht 13,886.7 million, respectively. Decrease by Baht 1.9 million due to a decrease of Baht 75.4 million in cash and cash equivalents, trade and other receivables increase by Baht 13.5 million from receivables of Natural Gas Power Plant which increased Baht 6.7 million according to the increase in revenue. Receivables under finance lease decreased by Baht 103.6 million from the adjustment of exchange rates and cash received during the period. Inventories increased by Baht 121.0 million due to the change of fuel storage plan in order to be sufficient for production in a longer period. Restricted deposits at financial institutions increased by Baht 18.9 million, which are deposits with financial institutions as collateral as specified in the loan agreements in order to receive payment under the Power Purchase Agreements, to reserve for adequately principal repayment and interest and to reserve for repair and maintenance. Property, plant and equipment decreased by Baht 144.0 million from depreciation during the period. Advance payments for constructions and purchase of fixed assets increased by Baht 86.6 million from Krabi Solid Waste Power Plant. Rights to service under concession agreements increased by Baht 46.4 million from concession rights of Krabi Solid Waste Power Plant and amortization during the period. Other assets increased by Baht 15.4 million due to the recording of deferred income tax assets increased by Baht 12.3 million.

Liabilities

Total liabilities as at 30 September 2019 and 31 December 2018 were Baht 7,743.2 million and Baht 8,315.1 million, respectively. Decrease by Baht 571.9 million, mainly due to long-term loans from financial institutions decreased by Baht 538.8 million from repayment of loan. Debentures decreased by Baht 38.6 million from repurchasing of debentures. Trade and other payables decreased by Baht 104.5 million from decrease in natural gas payable which decreased from end of the year by Baht 116.3 million. However, payables from the purchase of fixed assets increased by Baht 14.0 million.

Equity

Shareholders' equity as at 30 September 2019 and 31 December 2018 were Baht 6,141.6 million and Baht 5,571.6 million. Increased by Baht 570.0 million from the Group has a net profit resulting in an increase in unappropriated retained earnings.



Please be informed accordingly,

Yours sincerely,

(Mr.Tanavijit Ankapipatchai)

Director and Chief Financial Officer