

RATCH Group Public Company Limited
Management Discussion and Analysis

For the 1st Quarter Ended 31 March, 2020



Executive Summary

Unit : Million baht

| | Quarter 1 | | Increase (Decrease) | % |
|---|-----------|----------|------------------------|-----------|
| | 2020 | 2019 | | |
| Total revenues * | 4,506.78 | 4,014.33 | 492.45 | 12.3 |
| Total cost and expenses * | 2,522.92 | 2,311.10 | 211.82 | 9.2 |
| Gain (Loss) on foreign exchange | (623.03) | 38.03 | (661.06) | (1,738.3) |
| Profit attributable to owner of the Company | 1,360.82 | 1,741.26 | (380.44) | (21.8) |
| Profit attributable to owner of the Company before Fx | 1,983.85 | 1,703.23 | 280.62 | 16.5 |

* excluding fuel cost

The operating result for the 1st quarter of 2020 showed the profit (attributable to owners of the Company) of THB 1,360.82 million, decreasing by THB 380.44 million. The main reason was the recognition of loss on foreign exchange as AUD currency depreciated in relative to USD currency. However, the operating result for the 1st quarter of 2020, without consideration of the effect of foreign exchange gain (loss) of the Company and subsidiaries showed the profit of THB 1,983.85 million, increasing by THB 280.62 million from the same period of the previous year. The increase is owing to the increase in the profit of Hongsa Power Company Limited, a joint venture, in a portion of 40 percent. In addition, the acquisition of RATCH Cogeneration Company Limited, the Company's wholly owned subsidiary, on October 1, 2019, resulted in the increase in revenue from sales and rendering of services.



(Translation)

1. Significant Events of the 1st quarter of 2020

1.1 Sales of Ordinary Shares of Hin Kong Power Holding Company Limited

On January 3, 2020, the Company sold 196,000 ordinary shares of Hin Kong Power Holding Company Limited or 49 percent of the total shares at THB 10 per share, which is at par price, totaling THB 1.96 million to Gulf Energy Development Public Company Limited.

Hin Kong Power Holding Company Limited fully owns Hin Kong Power Company Limited, a company that is established in preparation for development of Hin Kong Power Plant. 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) in Hin Kong Subdistrict, Maung District, Ratchaburi Province. Hin Kong Power Company Limited has signed a 25-year Power Purchase Agreement with Electricity Generating Authority of Thailand, with a schedule for commercial operation in 2024 and 2025, respectively. Currently, the project is in the process of Environmental Impact Assessment Report preparation.

1.2 Signing of Memorandum of Understanding – “District 9 Project: Digital Industrial Zones and Intelligent Communities”

On January 8, 2020, the Company, Thammasat University, Nava Nakorn Public Company Limited, and ALT Telecom Public Company Limited have entered into a Memorandum of Understanding (“MOU”) – “District 9 Project: Digital Industrial Zones and Intelligent Communities”, which is a project to study the guidelines for smart city development to satisfy the demand of production, commerce, energy, and telecommunications in the digital age. Based on the potential of physical, location, and readiness of basic infrastructure of Thammasat University, Rangsit Center, and Nava Nakorn Industrial Zone in Pathumthani Province, which both are suitable for studying and developing the smart city in the future. The Company will contribute information and knowledge regarding energy technology.

The results of the feasibility of the project will be used as a guideline for smart city development to create the new standards of production, commerce, and residence in all angles in accordance with the demand and growth of population in Bangkok and northern Metropolitan zone.

1.3 Signing of Power Purchase Agreements for Collector Wind Farm in the Commonwealth of Australia

On March 9, 2020, RATCH-Australia Corporation Pty Ltd (“RAC”), the Company’s wholly owned indirect subsidiary, has signed a long-term Power Purchase Agreement (“PPA”) with Infigen Energy, which is listed on the Australian Securities Exchange and is leading Australia’s transition to a clean energy future, for 60 percent of energy output from the 226.80 MW capacity Collector Wind Farm. The sales of power under the PPA starts from the project’s first energy generation within 2020 and the PPA will expire on December 31, 2030.

On March 24, 2020, RAC achieved a long-term PPA with a retailer named ALDI Foods Pty Ltd in the Commonwealth of Australia for 19.40 percent of energy output for the period of 10 years.

Collector Wind Farm is located in New South Wales in the Commonwealth of Australia. The project is under construction and expected to achieve full commercial operation in early 2021. The remaining 20.60 percent of uncontracted output from the project will be sold in the Australian energy market.

1.4 Signing of Share Purchase Agreement to Invest in SPP Power Plant Project in Rayong Province

On March 12, 2020, the Company has entered into Share Purchase Agreement to purchase 49 percent of ordinary shares of NER Singapore Pte Ltd, totaling approximately USD 21 million from Nexif Energy Thailand B.V., the existing shareholder. The purpose of such investment is to develop Nexif Energy Rayong SPP Power Project. The project is a firm-cogeneration small power producer power plant project with the capacity of 92 megawatts, using natural gas as fuel. It is operated by Nexif Energy Rayong Company Limited (a wholly-owned subsidiary of NER Singapore Pte Ltd), located in SPP Industrial Park, Bankhai District, Rayong Province. It has a 25-year power purchase agreement with Electricity Generating Authority of Thailand. The commercial operation date is expected to be approximately in April 2022.

On April 21, 2020, Nexif Energy Rayong Company Limited was successful in making the first drawdown with financial institutions under its project financial agreement.

On April 27, 2020, NER Singapore Pte Ltd registered the name changed to NEXIF RATCH ENERGY SINGAPORE PTE LTD. On May 5, 2020, Nexif Energy Rayong Company Limited registered the name changed to Nexif Ratch Energy Rayong Company Limited.

1.5 Signing of Shareholder Agreement to Jointly Develop a Power Project in Nakhon Ratchasima Province

On March 27, 2020, the Company has entered into a Shareholder Agreement with Nava Nakorn Public Company Limited and PEA ENCOM International Company Limited in which the shareholding proportion is 40, 35, and 25 percent, respectively to jointly develop a power project in Nakhon Ratchasima Province. The project is a cogeneration independent power supply project with the generation capacity of 40 megawatts. It will be located in Nava Nakorn Industrial Promotion Zone, Nakhon Ratchasima province. The project cost is approximately THB 2,176 million. The generated power and steam will be sold to industrial customers and the commercial operation is scheduled in July 2023.

On April 21, 2020, the three shareholders have already registered the establishment of the joint venture company named R E N Korat Energy Company Limited which has registered capital of THB 1 million, divided into 100,000 shares valuing at THB 10 each. The capital is paid at 25 percent of the registered capital.

2. Operation performance according to consolidated financial statement

Unit : Million baht

| | Quarter 1 | | Increase (Decrease) | % |
|--|------------------|-----------------|------------------------|---------------|
| | 2020 | 2019 | | |
| Revenue from sales and rendering of services (excluding fuel cost) | 2,207.80 | 2,058.80 | 149.00 | 7.2 |
| Revenue from finance lease contract | 717.21 | 750.86 | (33.65) | (4.5) |
| Share of profit of associates / joint ventures | 1,480.64 | 1,081.13 | 399.51 | 37.0 |
| Other incomes | 101.13 | 153.20 | (52.07) | (34.0) |
| Total revenues | 4,506.78 | 4,043.99 | 462.79 | 11.4 |
| Cost of sales and rendering of services (excluding fuel cost) | 1,950.86 | 1,218.84 | 732.02 | 60.1 |
| Administrative expenses | 410.50 | 340.41 | 70.09 | 20.6 |
| Gain (loss) on fair value adjustment of derivatives | (349.85) | 105.46 | (455.31) | (431.7) |
| Finance costs | 360.44 | 375.56 | (15.12) | (4.0) |
| Income tax expense | 150.97 | 300.49 | (149.52) | (49.8) |
| Total expenses | 2,522.92 | 2,340.76 | 182.16 | 7.8 |
| | 1,983.86 | 1,703.23 | 280.63 | 16.5 |
| Non-controlling Interests | (0.01) | - | (0.01) | - |
| Profit before exchange rate - the Company and subsidiaries | 1,983.85 | 1,703.23 | 280.62 | 16.5 |
| Gain (loss) on foreign exchange - the Company and subsidiaries | (623.03) | 38.03 | (661.06) | (1,738.3) |
| Profit attributable to owner of the Company | 1,360.82 | 1,741.26 | (380.44) | (21.8) |
| | <i>Fuel Cost</i> | <i>6,684.97</i> | <i>7,186.26</i> | |

The operating result according to the consolidated financial statement for the 1st quarter of 2020 showed the profit (attributable to owners of the Company) of THB 1,360.82 million or THB 0.94 per share, decreasing by THB 380.44 million, or 21.8 percent, compared with the profit of THB 1,741.26 million or THB 1.20 per share of the 1st quarter of 2019. However, the operating result according to the consolidated financial statement for the 1st quarter of 2020, without consideration of the effect of foreign exchange gain (loss) of the Company and subsidiaries showed the profit of THB 1,983.85 million, compared with the profit of THB 1,703.23 million of the 1st quarter of 2019, increasing by THB 280.62 million, or 16.5 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 2020, the Company recorded loss on foreign exchange of THB 623.03 million. 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. In contrast, the Company recorded gain on exchange rate of Baht 38.03 million in the 1st quarter of 2019 due to the appreciation of AUD currency in relative to USD currency, resulting in the increase 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 2020 was THB 2,207.80 million (excluding fuel costs of THB 6,684.97 million), increasing by THB 149.00 million or 7.2 percent from revenue from sales and rendering of services in the 1st quarter of 2019 of THB 2,058.80 million (excluding fuel costs of THB 7,186.26 million). The main reasons were as follows:

(1) The increase in revenue from sales of RATCH Cogeneration Company Limited, a subsidiary, in the amount of THB 524.19 million post the acquisition on October 1, 2019.

(2) The decrease in revenue from sales of Ratchaburi Electricity Generating Company Limited, a subsidiary, in the amount of THB 241.25 million due to the decrease in Base Availability Credit in 2020 compared to that of 2019, as specified in the Power Purchase Agreement.

(3) The decrease in revenue from sales of RATCH-Australia Corporation Pty Ltd, a subsidiary, in the amount of THB 134.85 million, mainly due to AUD currency depreciation in relative to USD currency. In addition, Mount Emerald Wind Farm Project generated less electricity than that in the same period of the previous year.

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

Cost of sales and rendering of services for the 1st quarter of 2020 was THB 1,950.86 million (excluding fuel costs of THB 6,684.97 million), increasing by THB 732.02 million or 60.1 percent from cost of sales and rendering of services in the 1st quarter of 2019 of THB 1,218.84 million (excluding fuel costs of THB 7,186.26 million). The main reason was the cost of sales and rendering of services of RATCH Cogeneration Company Limited, a subsidiary, has been consolidated in the amount of THB 463.14 million post the acquisition on October 1, 2019. In addition, the cost of sales from Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of THB 283.84 million due to the recognition of losses on revaluation of heavy oil and diesel oil prices in the total amount of THB 251.24 million.

2.4 Gain (loss) on fair value adjustment of derivatives

In the 1st quarter of 2020, the Company recorded gain on fair value adjustment of derivatives according to the adopted accounting policies for derivatives and hedge accounting in the amount of THB 349.85 million. In contrast, the Company recorded loss on fair value adjustment of derivatives in the 1st quarter of 2019 in the amount of THB 105.46 million. The main reason was the change in fair value adjustment of cross currency swap contract between JPY and AUD currencies to manage exposure of fluctuations in foreign exchange risk on borrowings.

2.5 Share of profit of associates and joint ventures

Share of profit of associates and joint ventures for the 1st quarter of 2020 was THB 1,480.64 million, increasing by THB 399.51 million or 37.0 percent from THB 1,081.13 million in the 1st quarter of 2019. The main reason was due to the fact that the profit of Hongsa Power Company Limited (“HPC”), a joint venture, in a portion of 40 percent, increased in the amount of Baht 390.04 million as HPC generated more electricity than that in the same period of the previous year.

3. Analysis of statement of financial position

3.1 Analysis of assets

As at March 31, 2020, the total assets were THB 103,448.31 million, increasing by THB 3,218.88 million or 3.2 percent from THB 100,229.43 million as at December 31, 2019. The details were as follows:

(Million Baht)

| | Mar 31, 2020 | Dec 31, 2019 | Increase (Decrease) | % |
|---------------------|-------------------|-------------------|------------------------|------------|
| Current assets | 21,084.93 | 20,479.77 | 605.16 | 3.0 |
| Non-current assets | 82,363.38 | 79,749.66 | 2,613.72 | 3.3 |
| Total Assets | 103,448.31 | 100,229.43 | 3,218.88 | 3.2 |

3.1.1 Cash and cash equivalents increased in the amount of THB 2,329.06 million (the details are described in no.4). However, other current financial assets decreased in the amount of THB 3,678.45 million.

3.1.2 Trade accounts receivable from related parties of Ratchaburi Electricity Generating Company Limited, a subsidiary, increased in the amount of THB 2,081.48 million since, as at March 31, 2020, the receivable consisted of the electricity sale in February and March 2020; whereas, as at December 31, 2019, the receivable consisted of the electricity sale in December 2019.

3.1.3 Investments in associates and joint ventures increased in the amount of THB 2,501.73 million. The main reasons were from the share of profit contributed during the period in the total amount of THB 1,480.64 million and exchange rate adjustment in the amount of THB 1,636.10 million. On the other hand, the Company recorded dividend income in the amount of THB 540.27 million.

3.2 Analysis of liabilities and equity

As at March 31, 2020, the total liabilities and equity were THB 103,448.31 million, increasing by THB 3,218.88 million or 3.2 percent from THB 100,229.43 million as at December 31, 2019. The details were as follows:

| | (Million Baht) | | | |
|-------------------------------------|-------------------|-------------------|------------------------|------------|
| | Mar 31, 2020 | Dec 31, 2019 | Increase (Decrease) | % |
| Liabilities | 44,440.97 | 40,815.50 | 3,625.47 | 8.9 |
| Equity | 59,007.34 | 59,413.93 | (406.59) | (0.7) |
| Total Liabilities and Equity | 103,448.31 | 100,229.43 | 3,218.88 | 3.2 |

3.2.1 Liabilities increased in the amount of THB 3,625.47 million, the main reasons were as follows:

(1) Dividend payable increased because the Board of Directors in the meeting no. 3/2020 on March 20, 2020 approved interim dividend payment which was paid on April 17, 2020 in the amount of THB 1,812.50 million.

(2) Short-term loan from financial institutions increased in the amount of THB 1,520.55 million. The main reason was RH International (Singapore) Corporation Pte Ltd, a subsidiary, received short-term loans from financial institutions during the period in the amount of USD 45 million.

(3) Debentures increased in the total amount of THB 1,139.58 million due to the appreciation of USD currency in relative to THB currency.

(4) Trade accounts payable of Ratchaburi Electricity Generating Company Limited, a subsidiary decreased in the amount of Baht 865.22 million since, as at March 31, 2020, the account payable consisted of the fuel payable in March 2020; whereas, as at December 31, 2019, the account payable consisted of the fuel payable in November and December 2019.

3.2.2 Equity decreased in the amount of THB 406.59 million. The main reasons were as follows:

(1) The profit of the 1st quarter of 2020 in the amount of THB 1,360.82 million

(2) The Board of Directors in the meeting no. 3/2020 on March 20, 2020 approved interim dividend payment which was paid on April 17, 2020. This resulted in the decrease in the retained earnings in the amount of THB 1,812.50 million.

4. Analysis of cash flows

Cash and cash equivalents of the Company and its subsidiaries as at March 31, 2020 were THB 7,246.22 million, increasing by THB 2,329.06 million from THB 4,917.16 million on December 31, 2019. The details were summarized below:

| | (Million Baht) |
|--|------------------------|
| Net cash used in operating activities | (1,624.64) |
| Net cash from investing activities | 2,273.12 |
| Net cash from in financing activities | 1,750.24 |
| Effect of exchange rate changes on cash and cash equivalents | (69.66) |
| Net cash decrease during the period | <u><u>2,329.06</u></u> |

4.1 Net cash used in operating activities decreased cash flow in the amount of THB 1,624.64 million. The reason was the operating result of the 1st quarter of 2020 improved cash position by THB 1,317.20 million, adjusting by the change in operating assets and liabilities in the amount of THB -2,941.84 million.

4.2 Net cash from investing activities increased cash flow in the amount of THB 2,273.12 million. The main reasons were as follows:

4.2.1 The Company received cash from other current financial assets in the amount of Baht 3,698.91 million.

4.2.2 The Company received dividends from associates and joint ventures in the total amount of THB 516.14 million.

4.2.3 RATCH-Australia Corporation Pty Ltd, a subsidiary, paid for the construction of Collector Wind Farm Project in the amount of AUD 83.79 million.

4.2.4 RH International (Singapore) Corporation Pte Ltd, a subsidiary, paid for additional paid-up share capital of PT Medco Ratch Power Riau in the amount of USD 6.03 million.

4.3 Net cash from financing activities increased cash flow in the amount of THB 1,750.24 million. The main reasons were as follows:

4.3.1 RH International (Singapore) Corporation Pte Ltd, a subsidiary, received short-term loans from financial institutions in the amount of USD 45 million.

4.3.2 RATCH-Australia Corporation Pty Ltd, a subsidiary, a subsidiary, received long-term loans from financial institutions in the amount of AUD 41.60 million.

4.3.3 The Company paid for interest expenses in the amount of Baht 542.93 million.

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

| Ratios | | Quarter 1 | |
|--|---------------|-----------|-------|
| | | 2020 | 2019 |
| 1) Current Ratio | (Times) | 2.21 | 2.36 |
| 2) Profit to Total Revenue (excluded fuel costs) | (%) | 44.02 | 42.12 |
| 3) Return on Equity ** | (%) | 10.66 | 10.21 |
| 4) Return on Assets ** | (%) | 7.80 | 8.33 |
| 5) EBITDA * | (Million THB) | 2,870 | 2,834 |
| 6) EBITDA to Total Assets | (%) | 2.82 | 2.77 |
| 7) Debt to Equity Ratio | (Times) | 0.75 | 0.70 |
| 8) Debt Service Coverage Ratio | (Times) | 7.73 | 6.96 |
| 9) Book Value per Share | (THB) | 40.69 | 41.84 |

* *Not included the change in lease receivable (Million THB)* 822.80 418.18

** *Data for 12-month period*