



RISK MANAGEMENT

RISK POLICY AND MANAGEMENT PLAN

BCPG implemented and optimized risk management aligned with the global standards of COSO, ERM, and ISO 31000 to prevent and lessen risks that potentially hinder the organization from reliably achieving goals. Relevant policies were formulated to ensure that all executives and employees are committed to risk management in the area for which they are responsible, implementing risk management process that conforms to corporate governance and establishing Risk Management Committee which is tasked to monitor and track progress of risk management. Moreover, risk assessment is held on an annual basis. In 2020, BCPG has classified risk factors into business risks, financial risks, and management risks.

BUSINESS RISK FACTORS

(1) BUSINESS RISKS

RISKS FACTORS THAT MAY BE BARRIERS TO THE OPERATION OF RENEWABLE POWER PLANTS

Renewable power plants, i.e., solar farms, wind parks, hydropower and geothermal power plants, etc., harness energy that is beyond human control. All these plants rely on perpetually changing solar constant, wind speed, volume of water, or pressure in Earth's interior; however, BCPG shall always dive into energy figures evaluated by third-party experts, general statistic figures, or historical data, and calculate returns on investment by sensitivity analysis prior to finalizing a decision for investment. BCPG further takes into account the choices of equipment and have closely monitored the generating process by installing devices and equipment for scheduled maintenance, and/or having a warning system in place to inform of device errors, all of which are to prioritize efficiency of project management.

RISKS FROM POWER PLANT DEVELOPMENT AND CONSTRUCTION

Successful development of power plants (both domestic and overseas), such as solar farms in Japan, or wind farms in Lao PDR, as well as transmission line and substation construction (Lao PDR-Vietnam) are dependent on several factors; for instance, licenses, compliance with PPAs or licensing agreements, fund and land acquisition, etc. These factors can potentially be a barrier impeding project operation with adverse effect on its returns. Additionally, there are as well risks from economic conditions, changes in public energy policy, international relations, and regulations for overseas investment, which are external factors that may influence success of the projects. BCPG hence gives importance to the selection of business partners, as they must be equipped with relevant experiences, administrative plan formulation, close progress tracking, trends, as well as establishing good relationships with public regulatory and other corresponding agencies.

RISKS FROM TARIFFS

Solar power plants with a total contractual generating capacity of 133 MW (accounting for 28.1% of a total installed capacity) are under a structure of base tariff + Ft + adder of THB 8.0/kWh (or approximately 66.7% of the base tariff) for a period of 10 years, which thereafter shall reduce to base tariff + Ft, resulting in decrease in BCPG's revenues from 2022-2024. However, BCPG has diversified investment in more projects under the FiT model and decentralized its investment to cover projects that leverage various energy sources (e.g., wind power plants, geothermal power plants, and hydropower plants) in order to sustain revenue momentum throughout the year and generate additional revenues to compensate for the missing earnings.

(2) FINANCIAL RISKS

RISKS FROM INTEREST RATE FLUCTUATIONS

As of the end of 2020, BCPG was funded by a total of THB 27,061.3 million, consisting of fixed-rate loans and adjustable-rate loans at a proportion of 15 : 85, respectively. Consequently, there are still risks from fluctuations in the adjustable interest rates that are subject to change periodically, influencing its financial cost, operation performance, and financial status. BCPG has, nevertheless, paid close attention to market dynamics and interest rates, and employed financial tools, e.g., Interest Rate Swap, to manage such risks, as deemed appropriate.

FOREIGN EXCHANGE RISKS

Currently, BCPG has expanded its business to overseas, such as Japan, Indonesia, the Philippines, and Lao PDR, thereby associating with investment funds, loans, revenues, and expenses in various currencies, such as THB, JPY, USD, LAK, etc. The diversified currencies entailed currency fluctuations which may affect company's financial statements. In 2020, BCPG was profitable from foreign exchanges at THB 215.6 million. However, the group employed natural currency hedges to mitigate partial risks incurred by the fluctuations; for example, some loans that are used for overseas investment shall be of the same currency as that of revenues earned from such project; there shall be financial tools, such as Forward Contract, Cross Currency Swap, as deemed appropriate.

RISKS FROM DEBT-PAYING ABILITY

As the power generating business requires a significantly large amount of investment, BCPG needed to acquire loans from third-financial institutes in form of project financing. Nonetheless, the group has enjoyed relatively stable incomes owing to the terms and conditions of PPAs under contractual periods of 20-25 years. Furthermore, towards the end of 2020, company's liabilities contributed to net interest to equity ratio of 1.2 times. BCPG is hence subject to low risks in comparison to other companies within the same industry.

(3) MANAGEMENT RISKS

RISKS FROM MANAGEMENT BY THE MAJOR SHAREHOLDER

By the end of 2020, 60.4% of BCPG's paid-up capital was held by Bangchak Corporation Public Company Limited ("BCP"), the group's major shareholder, which is authorized to monitor management through representative directors, nomination of representatives, and casting votes in matters of importance (such as capital increases/reductions, investment, acquisition and distribution of assets, etc.) in shareholders' meetings. The current management structure consists of 8 independent directors to engage in corporate management for the benefit of BCPG, individual investors, and stakeholders, in particular. Importantly, BCPG also provided mechanisms that facilitate shareholders in proposing additional agenda and nominating directors.

RISKS FROM THE COVID-19 PANDEMIC

Due to the rapidly spreading outbreak of COVID-19 that severely affects public health to a great extent, the contagious disease has resulted in constant increase of infected numbers and death tolls, and economic slowdown since 2020. BCPG's business targets were affected as there was a delay in, or no possibility for, international travels and cross-country construction equipment shipping, and decrease in electricity demands. However, BCPG's active long-term PPAs have helped mitigate adverse impact, as they contributed to the group's major revenue. In addition, as on-site personnel or office workers may potentially encounter the risks, BCPG prompted the implementation of preventive measures in power plants, such as temporary lockdown of plants located in risk areas and entry restrictions. It also rolled out work from home policies, provided personal protective equipment, disinfection procedures, electronic communication system, and other mechanisms to mitigate infection risks among personnel.