

(Translation)

Ratchaburi Electricity Generating Holding Public Company Limited

Management Discussion and Analysis

For the year ended December 31, 2005

1. Business Operation

Ratchaburi Electricity Generating Holding Public Company Limited (The Company) and its subsidiaries' operation and management policies for the year 2005 had been set to reflect their core business objective, to expand its investment in power business **to increase revenues and generating capacity of the Company**. On November 3, 2005 the Company signed the Shareholders Agreement and acquires for 25% share holding stake of South East Asia Energy Company Limited, an operator of hydroelectric power project of Nam Ngum 2 in Lao People's Democratic Republic from CH. Karnchang Public Company Limited. The Company had paid Baht 43.75 million to CH. Karnchang Public Company Limited on November 3, 2005. After that, South East Asia Energy Company Limited expects to increase the registered capital to Baht 9,400 million. Therefore, the Company's total investment will amount to Baht 2,350 million. The hydroelectric power project of Nam Ngum 2, which holds a long-term Power Purchase Agreement (PPA) with EGAT PCL., has the total generating capacity of 615 Megawatts. The project will begin supplying electricity power to Thailand in September 2010. Thus, the investment will increase another 153 Megawatts of the Company's total installed capacity to 4,498 Megawatts.

Furthermore, September 29, 2005 the Company signed the Shareholders Agreement to joint investment with Chubu Electric Power (Thailand) Company Limited (CEPT) to establish Chubu Ratchaburi Electric Service Company Limited ("CRESCO") with the registered capital of Baht 40 million, consisting of 400,000 shares, with par value of 100 Baht per share. The company holds the shares in a proportion 50 percent of the total shares. CRESCO will serve operation and maintenance for 1400 MW gas-fired combined cycle power plant of Ratchaburi Power Co., Ltd.

On March 9, 2005 Ratchaburi Gas Co., Ltd. ("Ratchaburi Gas"), the Company's subsidiary, acquired additional 12.5 percent of total shares of Tri Energy Co., Ltd. ("Tri Energy"), or

4,279,750 shares at the price of Baht 525.29 million. This transaction increased the shares proportion of Ratchaburi Gas in Tri Energy from 37.5 percent to 50 percent and the total capacity of Tri Energy increased 87.50 megawatts from 262.50 megawatts to 350 megawatts.

On June 25, 2005, Ratchaburi Electricity Generating Company Limited (the principal subsidiary) refinanced the whole amount of principal outstanding loan Baht 34,262 million which comprised long term loan and debenture in the amount of Baht 24,262 million and Baht 10,000 million respectively.

1.1 Operating Performances

Net profit in the year 2005 was Baht 6,066.36 million, or Baht 4.18 per share. This represents a decrease of Baht 420.67 million or 6.48 percent from Baht 6,487.03 million in year 2004. Total income in the year 2005 was Baht 44,836.83 million, increasing by Baht 4,420.40 million or 10.94 percent from the year 2004. Cost of sales and expenses in the year 2005 were Baht 38,770.47 million, increasing by Baht 4,841.07 million or 12.48 percent from the previous year.

1.2 Analysis of Income

Total revenues of the Company and its subsidiaries for the year 2005 were Baht 44,836.83 million, increasing by Baht 4,420.40 million or 10.94 percent from Baht 40,416.43 million in the year 2004. The main reasons of this were as follows:

1) The electricity sales of Ratchaburi Power Plant for the year 2005 was Baht 44,034.96 million, increasing by Baht 4,320.93 million or 10.88 percent from the year 2004. The main reasons were as follows :

- Revenue received from the availability payment for the year 2005 was Baht 12,394.50 million, increased by Baht 976.33 million or 8.55 percent from Baht 11,418.17 million in the year 2004. The main reason was due to the fact that the availability payment rate in the year 2005 was higher than that of in the year 2004 as specified in the Power Purchase Agreement (PPA).
- Revenue received from the energy payment for the year 2005 was Baht 31,640.46 million, increasing by Baht 3,344.60 million or 11.82 percent from Baht 28,295.86 million in the year 2004. This mainly was due to increase in energy generation,

resulting in higher consumption and higher prices of natural gas and fuel oil in 2005.

2) Interest income for the year 2005 were Baht 278.51 million, increased by Baht 122.62 million or 78.66 percent from Baht 155.89 million in the year 2004. This was mainly due to the increase in interest rate during the year 2005 and higher liquidity of cash and cash equivalent.

3) The Company recorded share of profit of joint ventures for the year 2005 in the amount of Baht 372.01 million, decreasing by Baht 35.89 million or 8.80 percent from Baht 407.90 million in the year 2004. The main reason were as follow:

- The Company recorded share of profit of Tri Energy for the year 2005 in the amount of Baht 468.55 million, increasing by Baht 26.44 million from Baht 442.11 million in the year 2004. The main reason was that on March 9, 2005, Ratchaburi Gas Company Limited the Company's subsidiary, increased the share proportion in Tri Energy from 37.5 percent to 50 percent.

In the year 2005 recorded the loss on foreign exchange in the amount of Baht 345.61 million.

- The company recorded share of loss of Ratchaburi Power for the year 2005 in the amount of Baht 91.56 million, increased by Baht 57.51 million or 1.69 times from Baht 34.05 million in the year 2004. The main reason was due to the Ratchaburi Power's project at Ratchaburi province is under construction, resulting in the increasing of the administration expenses in the amount of Baht 106.09 million. Additionally, Ratchaburi Power recorded loss on impairment of land at Prachuapkhirikhan province in the amount of Baht 44.94 million and recorded loss on foreign exchange in the amount of Baht 45.23 million while in the year 2004, recorded gain on foreign exchange in the amount of Baht 9.96 million.

On March 12, 2004, Ratchaburi Alliances Company Limited, the Company's subsidiary, acquired 25 percent of the total registered and paid up capital of Ratchaburi Power. Currently, Ratchaburi Power's project is under processing

for construction at Ratchaburi province and is scheduled to commence its commercial operation date in March and June 2008.

1.3 Analysis of Cost of Sales and Expenses

Cost of sales and expenses in the year 2005 were Baht 38,770.47 million, increasing by Baht 4,841.07 million or 14.27 percent from Baht 33,929.40 million in the year 2004. The main reasons were as follows:

1) Cost of sales of Ratchaburi Power Plant in the year 2005 was Baht 36,478.53 million, increasing by Baht 4,305.33 million or 13.38 percent from Baht 32,173.20 million in year 2004. This was resulting from

- An increase in fuel cost amounted to Baht 3,363.03 million. This mainly was due to higher consumption and higher prices of natural gas and fuel oil in 2005.
- The maintenance expenses for the year 2005 were Baht 1,282.53 million, increased by Baht 894.22 million or 2.30 times from Baht 388.31 million in the year 2004. The main reason was that the number of the Combined Cycle and Thermal Power Plant shutdown in the year 2005 was more than that of previous year, resulting in the increase in maintenance service expenses and spare parts expenses to Baht 471.26 million. In addition, the equipment repairing expenses for finishing repairing work were Baht 422.96 million higher than those of in the year 2004.
- The insurance expenses for the year 2005 were Baht 177.91 million, decreasing by Baht 47.23 million or 20.98 percent from Baht 225.14 million in year 2004. The main reason was that the company received discount for the good claim bonus of the power plant's insurance premium for the year 2005.

2) The administration expenses for the year 2005 was Baht 961.01 million, increased by Baht 498.04 million or 1.08 times from Baht 462.97 million in the year 2004. The main reason was that on July 25, 2005, the Principal Subsidiary refinanced the whole amount of principle outstanding loan and recorded the expenses of this transaction, including the prepayment fee, in the amount of Baht 229.69 million and the written off deferred financing fee of the previous loan as expense in the amount of Baht 236.52 million.

3) Income tax expenses for the year 2005 was Baht 89.75 million, increased by Baht 53.45 million or 1.47 times from that of Baht 36.30 million in the year 2004. This was mainly due to the compensation of combustion system improvement for Ratchaburi Power Plant in the amount of Baht 106 million received by the Principal Subsidiary in the year 2005 and the increase in interest income from the previous year, which were subject to income tax.

2. Analysis of Financial Status

2.1 Analysis of Assets

As at December 31, 2005, the Company and its subsidiaries had total assets of Baht 69,940.54 million, Baht 446.35 million or 0.64 percent increase from the year 2004. The classification is provided below:

1) The current assets totaled of Baht 18,300.22 million with an increase of Baht 1,704.74 million. The main reasons were as follows:

- An increase in cash and cash equivalents in the amount of Baht 3,816.98 million.
- Short-term investments and long-term investments due within one year totaled to Baht 5,141.53 million with a decrease by Baht 2,497.72 million from the previous year.
- Inventories totaled to Baht 2,084.30 million with an increase of Baht 477.57 million from the end of the previous year. The main reason was an increased of spare parts in transit of Combine Cycle Power Plant in the amount of Baht 352.03 million.

2) The non current assets totaled of Baht 51,640.32 million decreased by Baht 1,258.39 million. The main reasons for this were as follows:

- Long-term investments totaled to Baht 358.12 million, Baht 161.39 million decreased from the previous year.
- Long –term loans to related parties increased in the amount of Baht 242.75 million from the previous year. The main reason was, during year 2005, the Company had lent RPCL in the amount of Baht 272.75 million. According to this, Ratchaburi Alliances Company, the Company's subsidiary, acquired 25 percent of the share capital of RPCL on March12, 2004.
- Interests in joint ventures totaled to Baht 476.86 million as the result of net investments in Tri Energy Co., Ltd and Siam Ethanol Exports Co., Ltd. increased in the amount of

Baht 510.68 million and Baht 8.04 million respectively and loss sharing from RPCL in the amount of Baht 91.56 million. Additionally, during the year 2005, the Company invested in CRESCO and SEAN in the amount of Baht 7.10 million and Baht 42.60 million respectively.

- Net property, plant and equipment totaled to Baht 47,561.46 million with a decrease by Baht 1,409.16 million from previous year because of the depreciation of assets during the year in the amount of Baht 2,640.55 million. In the other hand, during the year 2005 the Company recorded the Hot Gas Parts and fuel oil handing system in the amount of Baht 733 million and Baht 400 million respectively.

2.2 Analysis of Liabilities

As at 31 December, 2005, the Company and its subsidiaries had total liabilities of Baht 38,451.17 million, which was Baht 2,575.01 million or 6.28 percent decreased from the end of the previous year. Current liabilities were Baht 8,943.22 million, increasing by Baht 35.49 million, compared with those as at the end of the previous year. Long-term liabilities were Baht 29,507.95 million, decreasing by Baht 2,610.50 million in comparison with those as at the end of 2004. The underlying factors were the repayment of long-term loans in the amount of Baht 3,199.09 million.

2.3 Analysis of Shareholders' Equity

As at December 31, 2005, the Company and its subsidiaries had total shareholders' equity of Baht 31,489.37 million, Baht 3,021.36 million or 10.61 percent increased in comparison with that of the previous year. The supporting factors were as follows:

- 1) Net profit in the year 2005 amounted to Baht 6,066.36 million.
- 2) Accordance to the Annual General Meeting of Shareholders on April 20, 2005, the Company's shareholders approved the appropriation of the Company's profit for the dividend payment for the operating results in the 2nd half year of 2004 in the amount of Baht 1,595 million (Baht 1.10 per share), which was paid on May 16, 2005.
- 3) The Board of Directors of the Company held on August 15, 2005 passed the resolutions to approve the interim dividends payment for the operating results for the first six month period of 2005 in the amount of Baht 1,450 million (Baht 1.00 per share), which was paid on September 14, 2005.

As at December 31, 2005, the Company had issued and paid-up share capital in the amount of Baht 14,500 million, with a premium on share capital of Baht 1,531.78 million, legal reserves of Baht 1,298.77 million, and unappropriated retained earnings of Baht 14,158.82 million.

2.4 Major Financial Ratios of the year 2005 and 2004.

	<u>Year 2005</u>	<u>Year 2004</u>
1) Current Ratio (times)	2.05	1.86
2) Ratio of Net Profit (%)	13.53	16.05
3) Rate of Return on Equity (%)	20.24	24.39
4) Rate of Return on Assets (%)	8.70	9.50
5) EBITDA (Million Baht)	10,344	10,434
6) Ratio of EBITDA to Assets (%)	14.84	15.27
7) Debt to Equity Ratio (times)	1.22	1.44
8) Debt Service Coverage Ratio (times)	2.33	2.52
9) Book Value per Share (Baht)	21.72	19.63
10) Earning per Share (Baht)	4.18	4.47

3. Analysis of Cash Flows

The ending balance of cash and cash equivalents of the Company and its subsidiaries as at December 31, 2005 was Baht 4,388.09 million with an increase of Baht 3,816.98 million or 6.68 times, compared to the previous year. The details were summarized below:

1) Net cash provided by operating activities increased in the amount of Baht 2,809.70 million from year 2004. This was due to the changing in account receivables increased the cash flow in the amount of Baht 4,099.96 million resulting from a decrease of the changing in electricity trade receivable at the end of year. In addition, the changing in account payable decreased the cash flow in the amount of baht 1,089.06 million resulting from a decrease of fuel trade payable at the end of year.

2) Net cash provided by investing activities increased in the amount of Baht 1,729.62 million from the year 2004, as a result of an increase in deposits at financial institution and short term investment in the amount of Baht 2,137.41 million and dividend received from Tri Energy increasing in the amount of Baht 241.52 million. While in the year 2005, the [Hot Gas Parts](#) increased in the amount of Baht 666.27 million from the previous year.

3) Net cash payments from financing activities increased from the previous year in the amount of Baht 603.87 million. The main reasons were that payments on long-term loans and dividends paid to shareholders increased in the amount of Baht 311.91 and Baht 502.61 million respectively.