

(Translation)

**Ratchaburi Electricity Generating Holding Public Company Limited and its subsidiaries**  
**Management Discussion and Analysis**  
**For the 3<sup>rd</sup> Quarter ended 30 September, 2005**

**1. Business Operation**

Ratchaburi Electricity Generating Holding Public Company Limited (The Company) and its subsidiaries' operation and management policies 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 Loa 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., is located 35 kilometers north of Nam Ngum 1 in the People Democratic Republic of Loas. It 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"). The company will have 50 percent interest in CRESCO. CRESCO will serve operation and maintenance for 1400 MW gas-fired combined cycle power plant of Ratchaburi Power Co., Ltd. It will have initial registered capital of Baht 40 million divided into 400,000 common shares with par value of 100 Baht per share. The company will take Baht 20 million in CRESCO. The total investment will be financed by working capital of the company and gradually paid based upon CRESCO's need of funding. The first payment had paid on October 17, 2005 amounted at Baht 10 million equivalent to 50 percent of total shares.

On June 25,2005, Ratchaburi Electricity Generating Company Limited (the subsidiary of the Company) refinance 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.

The details are as follows:

<u>Period</u>	<u>Interest Rate</u>
<u>Long Term Loan</u>	
July 25,2005 – July 24,2007	MLR-2.50%
July 25,2007 – July 24,2009	MLR-2.00%
July 25,2009 – March 31,2015	MLR-1.50%
<u>Debenture</u>	
The 3 years debenture at the amount Baht 7,000 million	
July 29,2005 – June 30,2008	3.67%
The 5 years debenture at the amount Baht 3,000 million	
July 29,2005 – June 29,2007	3.67%
July 30,2007 – June 30,2010	MLR-2.00%

### **1.1 Operating Performance of the 3<sup>rd</sup> Quarter of 2005**

Net profit of operating performance in the 3<sup>rd</sup> quarter of 2005 was Baht 1,481.65 million. This represented a decrease of Baht 415.87 million or 21.92 percent from Baht 1,897.52 million in the 3<sup>rd</sup> quarter of 2004. Total income in the 3<sup>rd</sup> quarter of 2005 was Baht 11,950.96 million, increasing by Baht 1,282.02 million or 12.02 percent from the 3<sup>rd</sup> quarter of 2004. Costs and expenses in the 3<sup>rd</sup> quarter of 2005 was Baht 10,469.31 million, increasing Baht 1,697.89 million or 19.36 percent from the 3<sup>rd</sup> quarter of 2004.

#### **1.1.1 Analysis of Income**

Total revenues of the Company and its subsidiaries (Ratchaburi Electricity Generating Company Limited, Ratchaburi Energy Company Limited, Ratchaburi Gas Company Limited and Ratch Udom Power Company Limited) for the 3<sup>rd</sup> quarter of 2005 were Baht 11,950.96 million, Baht 1,282.02 million or 12.02 percent increase from Baht 10,668.94 million in the 3<sup>rd</sup> quarter of 2004. The main reasons of this are as follows:

1) The electricity sales of Ratchaburi Electricity Generating Company Limited for the 3<sup>rd</sup> quarter of 2005 was Baht 11,649.16 million, increasing by Baht 1,105.04 million or 10.48 percent from Baht 10,544.12 million in the 3<sup>rd</sup> quarter of 2004. This was mainly because of

- Revenue received from the availability payment for the 3<sup>rd</sup> Quarter of 2005 was Baht 3,239.42 million, increasing by Baht 126.42 million or 4.06 percent from Baht 3,113.00 million in the 3<sup>rd</sup> Quarter of 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 3<sup>rd</sup> quarter of 2005 was Baht 8,409.74 million, increasing by Baht 978.62 million or 13.17 percent from Baht 7,431.12 million in the 3<sup>rd</sup> quarter of 2004. This mainly was due to higher prices of oil and natural gas.

2) The Company recorded share of profit of joint ventures for the 3<sup>rd</sup> quarter of 2005 in the amount of Baht 217.45 million increasing by Baht 151.20 million from Baht 66.25 million in the 3<sup>rd</sup> Quarter of 2004. The main reason was

- The Company recorded share of profit of Tri Energy for the 3<sup>rd</sup> quarter of 2005 in the amount of Baht 249.69 million, increasing by Baht 165.14 million from Baht 84.55 million in the 3<sup>rd</sup> quarter of 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. Additionally, the net income of Tri Energy in the 3<sup>rd</sup> Quarter of 2005 increase from the same period of the previous year since Tri Energy recorded gain on foreign exchange in the 3<sup>rd</sup> quarter of 2005 in the amount of Baht 48.96 million whereas in the 3<sup>rd</sup> quarter of 2004 recorded the loss on foreign exchange in the amount of Baht 113.74 million.
- The company recorded share of loss of Ratchabui Power for the 3<sup>rd</sup> Quarter of 2005 in the amount of Baht 32.02 million, increasing by Baht 13.72 million from Baht 18.30 million in the 3<sup>rd</sup> quarter of 2004.

On March 9, 2004, Ratchaburi Alliances Company Limited acquired 25 percent of the total registered and paid up capital of Ratchabui Power which the project is

under processing for construction and is scheduled to commence its commercial operation date in March and June 2008.

### **1.1.2 Analysis of Costs and Expenses**

Costs and expenses in the 3<sup>rd</sup> quarter of 2005 was totally Baht 10,469.31 million, increasing by Baht 1,697.89 million or 19.36 percent from Baht 8,771.42 million in the 3<sup>rd</sup> quarter of 2004. The main reasons for this are as follows;

1) Cost of sales in the 3<sup>rd</sup> quarter of 2005 was Baht 9,545.96 million, increasing by Baht 1,210.95 million or 14.53 percent from Baht 8,335.01 million in the 3<sup>rd</sup> quarter of 2004. This comprises of:

- An increase in fuel costs amounted to Baht 981.64 million. This mainly was due to higher prices of oil and natural gas.
- The maintenance expenses in the 3<sup>rd</sup> Quarter of 2005 were Baht 256.66 million, increasing by Baht 217.76 million or 5.60 times from Baht 38.90 million in the 3<sup>rd</sup> quarter of 2004. The main reason was that during the 3<sup>rd</sup> Quarter of 2005 Combined Cycle Power Plant Block 3 was shutdown for minor inspection and the repairing expenses of the equipment of the Combined Cycle Power Plant Block 1 and 2 were Baht 103.02 million.  
However, the approximately repairing expenses Baht 546.81 million of the equipments, which were under repairing, have not been recorded as expenses. Such repairing expenses will be recorded as expenses when repairing work is completed.
- Ratchaburi Electricity Generating Co.Ltd. had an accounting policy to calculate the value of spare parts by recognizing the allowance for obsolescence as an annual expense, averaged by the remained operating life of the power plants commencing from 2004 onwards. The allowance for obsolescence, which is categorized as the cost of sales of power plants, was Baht 16.80 million in the 3<sup>rd</sup> quarter of 2005.

2) The administration expenses for the 3<sup>rd</sup> quarter of 2005 was Baht 581.15 million, increasing by Baht 462.46 million or 3.89 times from Baht 118.69 million in the 3<sup>rd</sup> quarter of 2004. The main reason was that on July 25, 2005, Ratchaburi Electricity Generating Company Limited, 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) Interest expenses for the 3<sup>rd</sup> quarter of 2005 increased from Baht 305.20 million in the 3<sup>rd</sup> quarter of 2004 to Baht 324.71 million, increasing by Baht 19.51 million or 6.39 percent according to the average interest rate of the 3<sup>rd</sup> quarter of 2005 was 3.70%, higher than 3.25% of the 3<sup>rd</sup> quarter of 2004

4) Income tax in the 3<sup>rd</sup> quarter of 2005 amounted to Baht 14.65 million, increasing by Baht 4.89 million from Baht 9.76 million in the same period of the previous year. The main reason was the increasing in interest income.

## **1.2 Operating Performance of the First Nine-Month Period (January 1, 2005 – September 30,2005)**

For the first nine-month of 2005, the Company and its subsidiaries accounted for net profit at Baht 5,486.12 million or at Baht 3.78 per share, rising from net profit of the first nine-month of 2004, which was Baht 4,959.48 million, by Baht 526.64 million or 10.62 percent.

### **1.2.1 Analysis of Income**

Total revenues of the first nine-month of 2005 were Baht 34,784.69 million, Baht 4,539.27 million or 15.01 percent increase from the same period of the previous year. The main reasons of this were as follows:

1) The electricity sales of Ratchaburi Electricity Generating Company Limited for the first nine-month of 2005 was Baht 34,251.13 million, increasing by Baht 4,263.01 million or 14.22 percent from Baht 29,988.12 million of the first nine-month of 2004. This was mainly because of revenue received from availability payment and energy payment from Ratchaburi Power Plant increasing more than the first nine-month of 2004 as clarified in item 1.1.1(1)

2) Other income for the first nine-month of 2005 was Baht 118.18 million, increasing by Baht 111.95 million from Baht 6.23 million of the first nine-month of 2004. The main reason was in January 2005 Ratchaburi Electricity Generating Company Limited, the Principal Subsidiary, received compensation of combustion system improvement for Ratchaburi Power Plant in the amount of Baht 106 million in order to take natural gas with heating value higher than the value specified in the Gas Sales Agreement.

3) Interest income was Baht 184.52 million increasing by Baht 76.48 million or 70.79 percent from Baht 108.40 million in the same period of the previous year.

4) The Company recorded share of profit of joint ventures for the first nine-month of 2005 was Baht 210.72 million, increasing by Baht 90.95 million from Baht 119.77 million in the same period of previous year. The main reason was

- The Company recorded share of profit of Tri Energy Company Limited (Tri Energy) in the amount of Baht 274.76 million, increasing by Baht 119.23 million from the same period of previous year. 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.
- The company recorded share of loss of Ratchabui Power in the amount of Baht 63.36 million, increasing by Baht 27.60 million from Baht 35.76 million in the nine-month of 2004.

On March 9, 2004, Ratchaburi Alliances Company Limited acquired 25 percent of the total registered and paid up capital of Ratchabui Power which the project is under processing for construction and is scheduled to commence its commercial operation date in March and June 2008.

### **1.2.2 Analysis of Costs and Expenses**

Costs and expenses of the first nine-month period of 2005 totaled to Baht 29,298.57 million, rising by Baht 4,012.63 million or 15.87 percent from the corresponding period of 2004. The underlying reasons were as follow:

1) Costs of sales amounted to Baht 27,511.37 million, increasing by Baht 3,532.61 million or 14.73 percent from the same period of the previous year, This comprises of:

- An increase in fuel costs for the first nine-month period of 2005 was Baht 3,156.92 million. This mainly was due to higher power generation, resulting in higher consumption of natural gas and also higher prices of oil and natural gas.
- The maintenance expenses in the first nine-month of 2005 which were the repairing expenses of the equipment of the Combined Cycle Power Plant, such equipments being repaired in the year 2004, was Baht 620.35 million, increasing by Baht 338.57

million or 1.20 times from Baht 281.78 million in the first nine-month of 2004. The main reason was that during the nine months of 2005 Combined Cycle Power Plant has been shutdown more than the same period of previous year and the repairing expenses of the equipment increased from the previous year in the amount of Baht 195.78 million.

2) The administration expenses was Baht 808.13 million, increasing by Baht 461.86 million or 1.33 times from Baht 346.27 million in the same period of the previous year. The main reason was that on July 25, 2005, Ratchaburi Electricity Generating Company Limited, 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 deferred financing fee of the previous loan as expense in the amount of Baht 236.52 million.

3) Interest expenses for the nine-month period of 2005 was Baht 895.01 million, decreasing by Baht 30.82 million or 3.33 percent from Baht 925.83 million in the same period of the previous year. The main reason was the principal has been repaid according to its schedule at the end of each quarter.

4) Income tax amounted to Baht 75.35 million, increasing by Baht 48.31 million or 1.79 times from the same period of the previous year. The main reason was that the revenue from the compensation of combustion system improvement for Ratchaburi Power Plant in the amount of Baht 106 million and the increasing in interest income in the amount of Baht 76.48 million were subject to 30 percent income tax rate.

## **2. Analysis of Financial Status**

### **2.1 Analysis of Assets**

As at September 30, 2005, the Company and its subsidiaries had total assets of Baht 67,921.08 million, Baht 1,573.11 million or 2.26 percent decrease from Baht 69,494.19 million in the end of the previous year. A classification is provided below:

1) The current assets as at September 30, 2005 totaled of Baht 15,641.28 million with a decrease of Baht 954.20 million from Baht 16,595.48 million on December 31, 2004. The main reasons were as follows:

- Short-term and long term investments in promissory notes, bills of exchange, securities and deposits at financial institutions decreasing by Baht 3,417.48 million from the end of previous year.

The new loan agreement, signed on July 25,2005, did not require the subsidiary to pledge investments as collateral.

- An increase in cash and cash equivalents in the amount of Baht 671.76 million.
- An increase in trade receivable in the amount of Baht 1,654.60 million since the increasing in sale revenue in August and September 2005 and during November and December 2004 Combined Cycle Power Plant Block 2 was shutdown for Minor Inspection.
- Inventory and other current increase of Baht 196.74 million from the end of previous year.

2) The non current assets totaled of Baht 52,279.80 million decreased by Baht 618.91 million or 1.17 percent from Baht 52,898.71 million in the end of previous year. The main reasons were as follows:

- Net property, plant and equipment decreased in the amount of Baht 1,147.28 million from previous year. The main reasons were the depreciation of net property, plant and equipment during the first nine-month of 2005 in the amount of Baht 1,969.84 million and recording the fuel oil handing system in the amount of Baht 400 million which its operation commencing on January 1, 2005.
- Interests in joint ventures increasing by Baht 744.98 million as the result of profit sharing from of Tri Energy Co.,Ltd increased in the amount of Baht 800.05 million. The detail was that Ratchaburi Gas, the Company's subsidiary, acquired additional 12.5 percent of total shares of Tri Energy on March 9, 2005 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. Furthermore, the Company received profit sharing from Tri Energy in the amount of Baht 274.76 million in the first nine-month of 2005.
- Advance to a related party decreased in the amount of Baht 400 million. The main reasons was a fuel oil handing system transfer to fixed assets.
- Long-term loans to Ratchaburi Power, a joint venture, totaled to Baht 172.14 million increased from the end of the previous year.

## **2.2 Analysis of Liabilities**

As at September 30, 2005, the Company and its subsidiaries had total liabilities of Baht 37,011.95 million, which was Baht 4,014.23 million or 9.78 percent decreasing from Baht 41,026.18 million at the end of the previous year. The main reasons were as follow:

1) Current liabilities was decreasing by Baht 2,054.55 million. Due to trade payable was decreased in the amount of Baht 1,89.91 million since trade payable on September 30,2005 was the amount of accrued fuel costs for only one month (September 2005) but trade payable on December 31,2004 was the amount of accrued fuel costs for two months (November and December, 2004).

2) Non-current liabilities was decreasing by Baht 1,959.68 million. The underlying factor was the repayment of long-term loans in the amount of Baht 2,361.03 million.

## **2.3 Analysis of Shareholders' Equity**

As at September 30, 2005, the Company and its subsidiaries had total shareholders' equity of Baht 30,909.13 million, Baht 2,441.12 million or 8.57 percent increasing in comparison with the previous year. The supported factors were as follow:

1) The Company and its subsidiaries's operating profit for the nine months of 2005 amounted to Baht 5,486.12 million.

2) Accordance to the shareholders' annual meeting 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 2<sup>nd</sup> 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 in the six months of 2005 (January-June, 2005) in the amount of Baht 1,450 million (Baht 1 per share), which was paid on September 14, 2005.

The total shareholders' equity in the amount of Baht 30,909.13 million was clarified as issued and paid-up share capital Baht 14,500 million, premium on share capital Baht 1,531.78 million, legal reserves Baht 1,269.75 million, and unappropriated retained earnings Baht 13,607.60 million.

## 2.4 Major Financial Ratios

	<u>Q3/2005</u>	<u>Q3/2004</u>	<u>Q1-Q3/2005</u>	<u>Q1-Q3/2004</u>
1) Current Ratio (times)	2.28	1.56	2.28	1.56
2) Ratio of Net Profit (%)	12.40	17.79	15.77	16.40
3) Rate of Return on Equity (%)	4.80	7.12	18.48	19.19
4) Rate of Return on Assets (%)	2.17	2.73	7.98	7.21
5) EBITDA (Million Baht)	2,744	2,875	8,742	7,884
6) Ratio of EBITDA to Assets (%)	4.02	4.14	12.72	11.47
7) Debt to Equity Ratio (times)	1.20	1.61	1.20	1.61
8) Debt Service Coverage Ratio (times)	2.32	2.76	2.66	2.55
9) Book Value per Share (Baht)	21.32	18.58	21.32	18.58
10) Earning per Share (Baht)	1.02	1.31	3.78	3.42

## 3. Analysis of Cash Flows

The ending balance of cash and cash equivalents of the Company and its subsidiaries as at September 30, 2005 was Baht 1,242.87 million with an increase of Baht 247.96 million or 16.63 percent, from Baht 1,490.83 million on September 30, 2004. The details were summarized below:

1) Net cash provided by operating activities increased in the amount of Baht 283.65 million. The main reasons were the cash flows before changes in operating assets and liabilities were increased by Baht 745.01 million as a result of an increase in net profit in the amount of Baht 526.64 million from the same period of previous year. In addition, the changing in account receivables increased the cash flow in the amount of Baht 3,147.98 million and changing in account payable decreased the cash flow in the amount of baht 3,419.13 million.

2) Net cash payments from investing activities increased in the amount of Baht 1,384.97 million. Because of

- Net cash receipts of short-term and long-term investments increased in the amount of Baht 1,572.62 million.
- Net cash for acquisition of interests and additional paid up of shares in joint ventures increased in the amount of Baht 117.86 million. The main reason was that on March 9, 2005 Ratchaburi Gas acquired additional 12.5 percent of total shares of Tri Energy, at the price of Baht 525.29 million and on February 25, 2005 Ratchaburi Energy Co.Ltd.

paid for the additional paid up share in Siam Ethanol Exports Co.Ltd. in the amount of Baht 8.94 million. In the same period of previous year the Company acquired share in Siam Ethanol Exports Co.Ltd. and 25% of the share capital of RPCL in the amount of Baht 0.15 million and Baht 416.25 million respectively.

3) Net cash provided by financing activities increased in the amount of Baht 1,798.12 million. The main reason was the repayment of long-term loan in the nine months of 2005 was higher than the same period of the previous year of 2004 in the amount of Baht 206.43 million. In addition, the Company had paid the interim dividends for the operating results of the 1<sup>st</sup> half year 2005 in the amount of Baht 1,450 million (Baht 1.00 per share) in September 2005. However, in 2004 the Company has paid interim dividends in October 2004.