

1. Risk Factors

Factors which may give rise to risks towards investment by investors are as follows:

(1) Risk from Insufficient Revenue to Cover Expenditure

As toll revenue is the main revenue of the Company, the Company may be affected by any change of external factors having material impact on toll rates and traffic volume. Should the toll revenue not meet the projection, it may affect the Company's ability to cover such material expenditure as interest expense, scheduled repayment of long-term loans, operating expenses under the Second Stage Expressway Agreement, and etc.

The toll rates as specified in the Agreement are to be reviewed every five years in accordance with the increased rate of the consumer price index for Bangkok. The past toll revisions in the years 1998 and 2003 were made within the period as prescribed in the Agreement, but, in the Company's opinion, did not comply with the Agreement, thereby causing the Company's revenue to be lower than projected. However, the Second Stage Expressway Agreement provides a dispute settlement procedure in case of any disagreement on interpretation or noncompliance with the Agreement.

In respect of traffic volume, the Company estimated that there would be a low level of risk from uncertainty of the traffic volume on the Expressways due to the growth of traffic volume in the year 2006 at the approximate rate of three percent when compared to that of the year 2005. However, the Company closely monitored the information, as well as continuously following up on policies, laws or regulations and traffic work plans by the government. Changes in policies of the government may give rise to impact of competitors or may increase the traffic volume on the Expressway Systems. The opening of the Suvarnabhumi Airport on 28 September 2006 which was behind schedule caused the traffic volume for the first period of the year to be slightly lower than that as forecasted by the Company. However, after the opening of the Suvarnabhumi Airport, the traffic volume on the Si Rat Expressway, Rama IX - Srinagarindra Section, significantly increased, when compared to that of the period before the opening of the Suvarnabhumi Airport, by approximately 40,000 vehicles per day, representing 40 percent, due to its most convenient access to the Airport, while the traffic volume on the Chalerm Mahanakorn Expressway around Din Daeng area which served those vehicles from the Don Muang Airport decreased, when compared to that of the period before the opening of the Suvarnabhumi Airport, by approximately 11,000 vehicles per day, representing 16 percent. Additionally, the opening of the Industrial Ring Road and the construction of flyovers across several intersections in Bangkok and its surrounding areas, the construction of additional roads on the outskirts of Bangkok so as to connect with a range of networks may render motorists to change their commuting behavior. In this respect, some projects would

increasingly facilitate the Expressway users, while certain projects may be competing roads which would affect the number of service users.

As for potential impact from the provision of other public mass transit services, such as, the BTS, which was opened for public service in December 1999, and the subway, which was opened for service in July 2004, the Company has been continuously collecting information and conducting a survey in this regard, and discovered that such services have no impact upon the traffic volume of the Company since customers of the BTS and the subway mostly use public transportation. Behavior of personal car owners may change to a certain extent, but the information obtained from the survey revealed that the Company's revenue is not affected.

In regard to the Udon Rattthaya Expressway, after the change of the government policy to have Don Muang Tollway collect toll fees at a flat rate of Baht 20 throughout the route with an additional Baht 10 at the National Memorial - Rangsit Extension since April 2006, the average daily traffic volume on the Udon Rattthaya Expressway in the year 2006 amounted to 54,000 vehicles, representing an increase by approximately 9 percent as compared to that of the year 2005. However, the Company closely monitored and analyzed the impact of the move of the international airport from the Don Muang Airport to the Suvarnabhumi Airport around late September 2006, which revealed that such move of the Airport on this occasion would not create any material impact on the traffic volume on the Udon Rattthaya Expressway.

(2) Risk Relating to Business Operations under Agreements with Government Sector

Due to the fact that the Company has been doing business with the Expressway and Rapid Transit Authority of Thailand under the Second Stage Expressway Agreement, different interpretation of the contents and conditions of the Agreement between contractual parties may occur during the business operations. In order to resolve any possible dispute or disagreement, the Agreement provides a dispute settlement procedure. Should the Company and the Expressway and Rapid Transit Authority of Thailand be unable to settle any dispute, either party may refer such dispute to the Panel for settlement pursuant to the Agreement. If such dispute cannot be settled through the mediation by the Panel, or the decision of the Panel is not unanimous, or the parties fail to comply with such decision, the dispute shall be further referred to arbitration pursuant to the Agreement. Currently, there is disagreement on different interpretation of several matters, namely, 1. adjustment of toll rates for the suburban expressway and toll rates for 6 or more wheeled vehicles; 2. determination of the Priority Component Opening Date; 3. adjustment of toll rates for the Chalerm Mahanakorn Expressway and Si Rat Expressway and Sector D in accordance with the Ministry of Transport Notification which came into effect on 1 September 2003; and 4. adjustment of toll rates for the Udon Rattthaya Expressway in accordance with the Ministry of Transport Notification which came into effect on 1 November 2003, as detailed in the

Disputes with the Expressway and Rapid Transit Authority of Thailand (ETA) on pages 7-1 to 7-8.

(3) Risk from Noncompliance with the Relevant Agreements by Contractual Party

The Company is obliged to construct collection and distribution roads (CD Roads), provided that the Expressway and Rapid Transit Authority of Thailand is obliged to deliver the sites to the Company by 18 October 2000. Given the failure on the part of the Expressway and Rapid Transit Authority of Thailand to deliver the sites to the Company by the specified time, the Company's obligation in respect of such construction has therefore ceased, but the Company is entitled to claim damages from the Expressway and Rapid Transit Authority of Thailand due to the Expressway and Rapid Transit Authority of Thailand's inability to deliver the construction sites to the Company within the specified time, as well as the loss of toll revenue if the construction would have been completed as scheduled. As at 31 December 2006, such dispute has not yet been referred to arbitration proceedings.

However, the cessation of such obligation to construct the collection and distribution roads resulted in failure of the Company's revenue to meet the projected revenue and had an impact on overall traffic system, as such roads might be able to alleviate traffic problems in downtown. Failure in construction of said roads therefore impaired efficiency in provision of overall traffic services.

(4) Risk from Interest Rate Fluctuation

The Company had a large amount of debts in the form of long-term loans for investment in construction of the Si Rat Expressway and the extensions under the Second Stage Expressway Agreement, but the Company's operational results were not greatly affected by the increase in the lending interest rates. This was because in the year 2003, the Company entered into an amendment to the Credit Facility Agreement with the existing lenders for the amount of Baht 34,886 Million and requested a new credit facility of Baht 1,000 Million from another commercial bank at a fixed interest rate for the first five years, thereby rendering the interest expense under the amendment to the Credit Facility Agreement to be lower than that under the former Credit Facility Agreement. Furthermore, the fixed interest rate would also serve to prevent any risk from interest rate fluctuation or increase.

In the year 2006, the Company repaid the long-term loans in the amount of Baht 2,580 Million pursuant to the repayment schedule; signed an amendment to the Credit Facility Agreement entered into with the existing lenders; and requested an additional credit facility of Baht 1,000 Million with interest at the floating rates ranging from MLR – 1.5% to MLR.

As at 31 December 2006, the Company had long-term loans of Baht 28,383 Million. The ratio of loans with fixed to floating interest rates was

approximately 96:4, therefore the Company currently has a low level of risk from the fluctuation of interest rates.

However, interest expenses would be substantial to the Company's operations under the amendment to the Credit Facility Agreement of the year 2003 under which in the year 2009, the lending interest rate would be adjusted from fixed to floating interest rate of MLR – 2% per annum. Therefore, a change of 1% interest rate may affect the Company's expenditure in an approximate amount of Baht 280 Million. The Company's executives have been closely monitoring the circumstances and tendency of interest rate adjustment and are studying to implement financial tools so as to minimize risks in the case where interest rates may be higher in the future.

(5) Risk from Investment in Northern Bangkok Expressway Company Limited (Subsidiary)

The impact from the government policy on the construction of the competing roads resulted in the substantially lower volume of vehicles using the Udon Rattaya Expressway than projected. The Subsidiary's operational results are below that projected and remained at a loss, affecting the quality of the Company's investment funds and assets. However, the Company still plans to improve the return on such investment. The 2001 Annual Ordinary General Meeting of Shareholders granted approval for the business merger between Bangkok Expressway Public Company Limited and Northern Bangkok Expressway Company Limited. In this regard, the Expressway and Rapid Transit Authority of Thailand, as contractual party, is considering giving consent to the merger.

In order to minimize the risk from investment, in March 2004, the Company sold a certain portion of shares held in Northern Bangkok Expressway Company Limited to other legal entity, namely Cargo Village Co., Ltd., at the book value as at the selling date, in accordance with the resolution of the 2003 Annual Ordinary General Meeting of Shareholders assigning the Company's Board of Directors to consider and proceed with such matter. As a result, the Company's shareholding percentage in the Subsidiary then decreased to 53.33 percent of the registered capital in the year 2004.

In the year 2006, the toll rates of the Udon Rattaya Expressway were discounted continuously from the previous year resulting in an increase in the traffic volume and the revenue higher than that of the year 2005 by 6.5 percent. Therefore, in the year 2007, the Subsidiary would continue to implement the toll rate discount measure to encourage more motorists to use the Expressway. However, the Subsidiary continued to suffer a loss due to the impact of the competing roads.

(6) Risk from Investment in Various Companies

Due to the fact that the Company has invested in the construction and management of the Second Stage Expressway System, for a project period of 30

years which would end on 28 February 2020, with the remaining concession period of 13 years, and that the Company derives a high volume of net cash inflow each year, in order to establish long-term return and increase business value to its shareholders so as to enable the Company to continue as a going concern despite the termination of the Concession Agreement, the Company therefore considered investing in the public utility infrastructure business or in supporting business. In the year 2001, the Company invested in Bangkok Metro Public Company Limited, a company awarded concession from the Mass Rapid Transit Authority of Thailand (MRTA), in respect of investment in the M&E Equipment, together with management and maintenance of the MRTA Initial System, for a period of 25 years, and currently, the Company holds shares representing 11.93 percent. Furthermore, in the year 2005, the Company invested in SouthEast Asia Energy Limited, a company awarded concession from the Laos government to carry out design, development, construction and operation of the Nam Ngum 2 Hydroelectric Power Plant Project, for a period of 25 years, with an investment proportion of 12.50 percent; and also invested in Thai Tap Water Supply Co., Ltd. carrying out the business of production and distribution of tap water to the Provincial Waterworks Authority, with a shareholding proportion of 12.50 percent, for a contract period of 30 years.

Although the Company has considered that the investment in such companies would derive a favorable return on investment in the long run, the uncertainty of such return on investment may occur due to any change of substantial factors from anticipation, which may affect the said companies' revenue and operations.

As for Bangkok Metro Public Company Limited, the government also established the policy to encourage people to increasingly use the public service by opening the bid for the extension projects so as to expand the subway network, which would increase the volume of passengers.

In the year 2006, Bangkok Metro Public Company Limited was listed on the Stock Exchange of Thailand, whereby its financial costs decreased and some portions of funds from the public offering were utilized to repay loan debts and accommodate its liquidity. The Company, as an existing shareholder, jointly offered for sale the ordinary shares held in Bangkok Metro Public Company Limited to the public based on its shareholding percentage or 250 million shares so as to enable Bangkok Metro Public Company Limited to be qualified for distribution of shares to minor shareholders, representing no less than 25 percent of the paid-up capital. In this connection, the Company recorded the profit of Baht 10.2 Million from sale of such investment.

In the year 2006, SouthEast Asia Energy Limited signed the following significant agreements:

- 1) The Hydroelectric Power Plant Concession Agreement (Nam Ngum 2) with the government of the Lao People's Democratic Republic, on the BOOT (Build-Own-Operate and Transfer) basis, that is, for design, development, construction and operation of the Hydroelectric Power Plant (Nam Ngum 2) Project, for a period of 25 years;

- 2) The Long-Term Credit Facility Agreement with onshore syndicate lenders for payment of the Project costs;
- 3) The Power Purchase Agreement with the Electricity Generating Authority of Thailand for sale of all electrical energy to the Electricity Generating Authority of Thailand throughout the concession period of 25 years, whereby the sale price has been agreed upon in advance in order to minimize marketing risks. However, it would be possible that the power production may be lower than the required volume, which would cause the company to pay penalty due to its inability to produce electrical energy for the Electricity Generating Authority of Thailand as agreed, and which may affect its revenue accordingly. The electricity production in the Nam Ngum 2 Dam Project would mainly rely on hydroelectric power and in case of less quantity of inflowing water into the system, it may affect the production process. Nevertheless, according to a study of data on the quantity of water in such area during the years 1949-2003, the quantity of water should be sufficient to accommodate the requirement; and
- 4) The Hydroelectric Power Plant Construction Contract (Nam Ngum 2)

Currently, SouthEast Asia Energy Limited is constructing the Nam Ngum 2 Dam Project and its progress is in accordance with the construction plan. It is expected that the construction would be completed and opened for service according to the project plan, therefore, there would be a low level of risk from a delayed opening for service.

Thai Tap Water Supply Co., Ltd. is a company investing under the Build-Own-Operate Scheme (BOO), in other words, investing in construction of tap water production system and supply system without transfer of ownership in the tap water production system and supply system to the Provincial Waterworks Authority at the end of the Contract. The uncertainty in investment may arise from breach of the Concession Contract, which would cause the company to be fined or such Contract to be terminated, for example, in the case where Thai Tap Water Supply Co.,Ltd. would be unable to produce and supply tap water to meet 70 percent of the required minimum quantity for more than 90 consecutive days or unable to produce water to meet the required standard for more than 60 consecutive days due to defect of machinery or failure in operation. Major shareholders of Thai Tap Water Supply Co., Ltd. have experience in management of Pathum Thani Water Co., Ltd., a company producing and supplying tap water to the Provincial Waterworks Authority. Experience, knowledge and technology in management as transferred from Pathum Thani Water Co., Ltd. would be able to help minimize risks possibly arising from defect of machinery and failure in operation. Thai Tap Water Supply Co.,Ltd. commenced the tap water production and distribution since January 2004, and its production capacity for tap water and the water standard complied with the specified plan. It is deemed that Thai Tap Water Supply Co., Ltd. is the largest private tap water producer in Thailand and South East

Asia. In the year 2006, Thai Tap Water Supply Co., Ltd. gained revenue as projected and could make dividend payment. In the year 2006, the Company received dividends from Thai Tap Water Supply Co., Ltd. in a total amount of Baht 24.88 Million. Furthermore, Thai Tap Water Supply Co., Ltd. also registered its conversion into a public limited company and planned to be listed on the Stock Exchange of Thailand in the year 2007.

(7) Risk from Work Operations

Risk from operations may be resulted from primary factors, i.e., personnel, work system, operation system and external factors, which cause error or insufficiency of work procedures, employees, work system or information technology system, including employees' fraud and events or external factors, which may give rise to monetary and non-monetary damage, namely, damage to reputation or security of the Company.

In respect of personnel, the Company has continuously held staff training courses to provide and improve knowledge, skills and abilities in various fields necessary for performance of work based on each staff's position and designated duties in order to prevent the risk from shortage of personnel having knowledge, expertise and technical skills for specific work. The Company plans to gather the body of knowledge for specific work and extend the results to the knowledge management program. In order to prevent error from work process, the Company has adopted several quality event systems in its work operations, namely, 5S Event, Work Improvement Event, Suggestion Event, including ISO 9001:2000 Standard Quality Management System, in respect of which the Company has passed the quality surveillance and the accreditation has been renewed until the year 2007, so as to ensure that the Company's work operation system meets the standards, and all events which are significant to the provision of service to Expressway users are controlled, monitored and evaluated.

In addition, the Company also established the preventive measure for the significant structures of the Expressway Systems so as to be used at all times by way of drawing up a plan for inspection of the structures of both the Si Rat Expressway and the Udon Rattaya Expressway. In this respect, JMI Pacific Co., Ltd., an expert, was engaged to do so. In the year 2006, the 5th phase inspection was carried out and the results of which were used to establish the operation plan, maintenance method and monitoring without any impact on the use of the Expressways. With respect to the toll collection system and the communication system which are important to the Company's operations, the Company has provided the preventive maintenance as well as the data backup system, the standby power system and the management of purchase of spare materials. Regarding the toll collection equipment, which has a risk in obsolete technology, makes it difficult to procure spare equipment, the Company has thus conducted a study on new technology of automatic toll collection system, which is available from several manufacturers. Furthermore, the Company also employed specialists to give advice on technology to ensure modern and quality equipment and system,

which would build up all relevant parties' confidence, and cooperated with the Expressway and Rapid Transit Authority of Thailand to conduct the study for application to the Chalm Mahanakorn Expressway, the Si Rat Expressway and the Chalong Rat Expressway, which would result in extensive use of such system to alleviate traffic problems at the front of the toll plazas, and encourage more motorists to use the Expressways.

In case there is an event or external factor which results in an emergency, namely, peril, serious accident, earthquake and such events which may be caused by terrorism or sabotage as bombing and riot, the Company requires all units to have emergency plans to respond to any events which may suddenly occur as well as arranging for staff training to ensure that the staff in charge would be able to immediately take actions to resolve such emergency. To prevent any serious accident, the Company has controlled and monitored to have the strict compliance with the relevant laws; for example, transportation of chemical substances and passenger trucks without roof are prohibited from accessing the Expressways, and transport trucks need to have complete truck coverings. Moreover, the Company further established the measure for inspection of the routes and their surrounding areas, including cooperation with police officers responsible for the areas around the routes. The Company also adjusted positions and added equipment and tools installed on the Expressways to enhance the capacity of control and surveillance, such as, CCTV cameras, lighting, traffic signboards and information signboards.

However, in order to prevent the impact from damages, the Company and the Subsidiary took out insurance against the Property Damage of the Si Rat Expressway and the Udon Rattaya Expressway and Business Interruption, including the Public Liability, on a yearly basis.