

2. Nature of Business Operations

(1) Background

Bangkok Expressway Public Company Limited was founded on 23 December 1987 with registered capital of Baht 100,000. Since the Thai government wished to have the private sector to jointly invest in the development of the national transportation system, including the expansion of expressway network, the Expressway and Rapid Transit Authority of Thailand therefore invited interested parties to submit proposals for construction and operation of the Si Rat Expressway to connect to the Chalerm Mahanakorn Expressway, with the result that the Company's proposal was accepted by the Expressway and Rapid Transit Authority of Thailand and also adopted by the Council of Ministers on 20 September 1988. On 22 December 1988, the Company entered into the Second Stage Expressway Agreement with the Expressway and Rapid Transit Authority of Thailand for the construction and operation of the Si Rat Expressway and its extensions, including related businesses under said Agreement for a period of 30 years from 1 March 1990 until 28 February 2020.

In the year 1994, the current major shareholder, namely Kumagai Gumi Company Limited withdrew itself from the management, and thereafter, the group of local banks and CH. Karnchang Group entered into the management and accepted to purchase all shares held by Kumagai Gumi Company Limited. The Company went public on 23 June 1994 and its ordinary shares were registered as listed securities for trading on the Stock Exchange since 31 August 1995. The Company's present registered capital amounts to Baht 8,000 Million, Baht 7,700 Million of which has been paid up.

On 25 September 1996, the Company established Northern Bangkok Expressway Company Limited, with 99.99 percent of its registered capital of Baht 3,000 Million fully paid up on 24 December 1999, held by the Company. On 27 September 1996, Northern Bangkok Expressway Company Limited entered into the Bang Pa-in – Pak Kret Expressway Agreement with the Expressway and Rapid Transit Authority of Thailand for the construction and operation of the Udon Rattaya Expressway for a period of 30 years from 27 September 1996 until 26 September 2026. Thereafter, the Subsidiary's registered capital was increased by Baht 3,000 Million on 19 March 2003, Baht 750 Million of which has been paid up. Therefore, the Subsidiary's present registered capital amounts to Baht 6,000 Million, Baht 3,750 Million of which has been paid up.

On 17 April 1997, the Company entered into the Agreement for the Extension of the Second Stage Expressway, Sector D, for a period of 30 years, with the Expressway and Rapid Transit Authority of Thailand, for the construction and operation of Sector D of the Si Rat Expressway (Rama IX – Srinagarindra) from 17 April 1997 until 16 April 2027.

The Second Stage Expressway Project, the Bang Pa-in – Pak Kret Expressway Project and the Sector D Expressway Project are implemented on a BTO (Build, Transfer and Operate) basis, namely, the Company invests in the design,



construction and management of the Expressway System, and the title to various permanent constructions relating to or used in the Expressway System shall be passed on to the Expressway and Rapid Transit Authority of Thailand. The Company is entitled to receive remuneration in the form of toll revenue sharing as specified in the Agreements.

(2) Overview of Business Operations of the Company and the Subsidiary

(2.1) Overview of Business Operations

The Company and the Expressway and Rapid Transit Authority of Thailand jointly invested in the Expressway System in Bangkok and its surrounding provinces. The Expressway and Rapid Transit Authority of Thailand invested in the construction and operation of the Chalem Mahanakorn Expressway comprising 3 expressway routes, namely Din Daeng – Port, Bang Na – Port, and Port – Dao Khanong, covering a total distance of 27.1 kilometers. The Company was responsible for investment in the construction and operation of the Si Rat Expressway, comprising 4 Sectors, namely, Sector A (Rama IX – Ratchadapisek), Sector B (Phayathai – Bangkhlo), Sector C (Ratchadapisek – Chaeng Watthana) and Sector D (Rama IX – Srinagarindra), covering a total distance of 38.5 kilometers. The Chalem Mahanakorn Expressway and the Si Rat Expressway are connected at Makkasan Interchange and Bangkhlo Interchange. Expressway users shall pay tolls at the booths around the on-ramps of the Expressway. The Expressway and Rapid Transit Authority of Thailand is responsible for the collection of all tolls and share such toll revenue with the Company. In addition, the Expressway and Rapid Transit Authority of Thailand and the Department of Highways jointly constructed a connecting road between Sector D of the Si Rat Expressway and the Motorway at Srinagarindra Road. The Company and the Department of Highways were jointly responsible for the construction costs at the ratio of 54.036 percent to 45.964 percent.

Northern Bangkok Expressway Company Limited constructs and operates the Udon Rattaya Expressway comprising 2 Stages, namely Stage 1, Chaeng Watthana – Chiang Rak, and Stage 2, Chiang Rak – Bang Sai, connecting to the Si Rat Expressway around Chaeng Watthana Road, covering a total distance of 32 kilometers. As for the inbound route, Expressway users shall pay tolls at the booths around the on-ramps of the Expressway while in respect of the outbound route, Expressway users shall pay tolls at the off-ramps. The Expressway and Rapid Transit Authority of Thailand is responsible to collect and deliver all tolls to the Company. At present, all Expressway routes of the Company and the Subsidiary are opened for service.

In respect of the revenue sharing between the Company and the Expressway and Rapid Transit Authority of Thailand as specified in the Second Stage Expressway Agreement with effect from the Priority Component Opening Date, the toll revenue from the Chalem Mahanakorn Expressway and the Si Rat Expressway shall be encompassed and shared as per rules of area zoning. This is to say that in the urban network, for the first nine years, the Company and the Expressway and Rapid Transit Authority of



Thailand shall receive 60 percent and 40 percent, respectively. For the last nine years, the Company and the Expressway and Rapid Transit Authority of Thailand shall receive 40 percent and 60 percent, respectively. As for the period between the first nine years and the last nine years, the Company and the Expressway and Rapid Transit Authority of Thailand shall receive 50 percent each. For the suburban network, all toll revenue shall be paid to the Company and for the Udon Rattaya Expressway, all toll revenue shall be paid to the Subsidiary.

In the year 2002, the ratio of toll revenue sharing in respect of the urban network between the Company and the Expressway and Rapid Transit Authority of Thailand has changed from the Company and the Expressway and Rapid Transit Authority of Thailand receiving 60 percent and 40 percent, respectively, to receiving 50 percent each, commencing 2 September 2002.

Expressway	Area	Length (km.)	Opening Date	Revenue	Revenue Sharing Company : ETA
Chalerm Mahanakorn					
Din Daeng – Port	Urban	8.9	4 Jan 81	Company and ETA	- first nine years 60:40
Bang Na – Port	Urban	7.9	17 Jan 83	Company and ETA	- period between the first nine years and the last nine years 50:50
Port – Dao Khanong	Urban	10.3	8 Aug 87	Company and ETA	- last nine years 40:60
Si Rat					
Rama IX – Ratchadapisek	Urban	12.4	2 Sept 93	Company and ETA	
Phayathai – Bangkhlo	Urban	9.4	6 Oct 96	Company and ETA	
Ratchadaphisek – Chaeng Watthana	Suburban	8	2 Sept 93	Company	
Rama IX – Srinagarindra	Suburban	8.7	First Section 2 Dec 98 Second Section 1 Mar 00	Company	
Udon Rattaya					
Chaeng Watthana – Chiang Rak	Suburban	22	2 Dec 98	Subsidiary	
Chiang Rak – Bang Sai	Suburban	10	1 Nov 99	Subsidiary	

With respect to the Chalerm Mahanakorn Expressway and the Si Rat Expressway, the toll rates and the revision of the toll rates every five years shall be in accordance with the relevant Agreements, and the calculation and revision shall be based on the most recent increase of the consumer price index for Bangkok as issued by the Ministry of Commerce. Each increase shall be rounded up to the nearest Baht 5, provided that such revision shall not increase by more than Baht 10 during the first 15 years of the Contract Period. If there is an unusually high rate of inflation or an occurrence of Force Majeure or Exceptional Event, the Company and the Expressway and Rapid Transit Authority of Thailand shall consider the toll revision as appropriate, and the most recent toll revision was made on 1 September 2003.

With respect to the Udon Rattaya Expressway, the revision of toll rates every five years shall be based on the most recent increase of the consumer price index for Bangkok as issued by the Ministry of Commerce. Each increase shall be rounded up to the nearest Baht 5, provided that such revision shall not increase by more than Baht 15 during the first 15 years of the Contract Period. The first toll revision was made on 1 November 2003. Furthermore, for the purpose of promotion of use of this Expressway by regular customers, the Subsidiary arranged the sale promotion by way of immediate discount at the rate of 20-50 percent at the toll booths from July 2000. From January 2001, the Subsidiary gave an increased discount of 25-50 percent until the year 2004.

The power to approve the toll revision is vested in the Minister of Transport. However, the Company was of the view that the toll revision on 1 September 2003 for the Chalerm Mahanakorn Expressway and the Si Rat Expressway and on 1 November 2003 for the Udon Rattaya Expressway were not in accordance with the provisions of the relevant Agreements.

(2.2) Separation of Operations between the Company and the Subsidiary

The business operations of the Company and the Subsidiary are of the same nature, namely execution of the Expressway Agreements with the Expressway and Rapid Transit Authority of Thailand for the construction and operation of the Expressways. In the year 1996, the Company established the Subsidiary, namely Northern Bangkok Expressway Company Limited, to operate the Udon Rattaya Expressway Project. Given the severe financial hardship due to the fact that the actual revenue failed to meet the forecast as affected by the competing road since the year 1998, the Subsidiary therefore reengineered the management to minimize expenditures by way of staff downsizing and hiring the Company to operate the Udon Rattaya Expressway.

(2.3) Shareholding Structure in the Subsidiary

Registered capital of the Subsidiary	Baht	6,000,000,000	
Par value	Baht	10	per share
Paid up	Baht	3,750,000,000	
Ordinary shares		294,000,000	shares
Preferred shares		306,000,000	shares
	Total	600,000,000	shares
BECL holds shares in the Subsidiary		319,999,980	shares
Ordinary shares		154,000,000	shares
Preferred shares		165,999,980	shares

(3) Revenue Structure

Comparison of Revenue of the Company and the Subsidiary For Years 2002 - 2004

Description	Operated by	Year 2004		Year 2003		Year 2002	
		Million Baht	%	Million Baht	%	Million Baht	%
Urban Expressway							
Chalerm Mahanakorn Expressway (First Stage Expressway)	ETA	2,727.21	41.64	2,749.62	44.46	3,098.12	48.78
Si Rat Expressway (Second Stage Expressway, Sector A)	Company	1,304.20	19.91	1,257.40	20.34	1,338.14	21.06
Si Rat Expressway (Second Stage Expressway, Sector B)	Company	634.88	9.69	640.86	10.36	707.37	11.14
Total		4,666.29	71.24	4,647.88	75.16	5,143.63	80.98
Suburban Expressway							
Si Rat Expressway (Second Stage Expressway, Sector C)	Company	628.30	9.59	592.57	9.58	534.71	8.42
Si Rat Expressway (Second Stage Expressway, Sector D)	Company	738.63	11.28	536.10	8.67	344.78	5.43
Udon Rattaya Expressway (Bang Pa-in – Pak Kret Expressway)	Subsidiary	516.74	7.89	407.37	6.59	328.40	5.17
Total		1,883.67	28.76	1,536.04	24.84	1,207.89	19.02
Grand Total		6,549.96	100.00	6,183.92	100.00	6,351.52	100.00

(4) Goals of Operations

In the year 2004, the Company set its goals in four areas as follows, Service, Survival, Image and Improvement.

Service: The Company is committed to playing a role in alleviating traffic problems in Bangkok and accordingly makes endeavor to improve on- and off-ramps of the Expressway to ensure better traffic flow. In this regard, during the middle of the year 2004, the Company improved two additional off-ramps of the Expressway around Rama IX Road and Mahanakorn Road, to better facilitate motorists.

Furthermore, an additional toll booth was installed at Prachachuen Toll Plaza to resolve problems of accumulated queuing for paying tolls in front of the Toll Plaza. In addition, the Company coordinated with the Expressway and Rapid Transit Authority of Thailand to open all available toll booths during the rush hours, so as to facilitate motorists. The Company also coordinated with traffic police, both those who are responsible for the Expressways and roads at grade, to alleviate traffic flow around the Expressway off-ramps.

However, the increased traffic volume resulting in the heavily traffic congestion on Prachachuen Road was due to the fact that the traffic flow departing the Expressway was interrupted. In this regard, in late 2004, the Company commenced construction of a flyover crossing Prachachuen Road and Khlong Prapa from the exit around Prachachuen Toll Plaza so as to resolve the traffic congestion problems around the exit at Prachachuen Road to enter Ratchadapisek Road. This project is expected to be completed in the year 2005.

Moreover, the Company has added another telephone number, namely 0-2664-6400, with five automatic telephone lines, for emergency reports and traffic condition inquiries, in addition to telephone number 1543 which is operated by the Expressway and Rapid Transit Authority of Thailand, and arranged staff to provide services throughout 24 hours, so as to ensure more services for the motorists.

Survival: The Company is determined to strengthen the Company's status so as to ensure its survival. During the national economic hardship, the Company strictly controlled its costs and endeavored to generate more income through the satisfaction of customers, construction of full Expressway services and modifications of on- and off-ramps as well as implementing marketing plans for motorists to become familiar with the service routes. These activities were successful as evidenced by an increased traffic volume. However, income in the year 2004 was higher than that of the year 2003 by 5.92 percent. Despite such change in ratio of revenue sharing between the Company and the Expressway and Rapid Transit Authority of Thailand from 60:40 to 50:50 commencing on 2 September 2002, the continuously increased traffic volume, particularly the traffic volume in the suburban network, caused the traffic volume in the year 2004 to increase from that in the year 2003 by 3.7 percent, resulting in higher revenue in the year 2004 than that in the year 2002 by 3.12 percent.

The Company planned to minimize the costs, and in the year 2004, financial costs decreased from 30.15 percent of revenue in 2003 to 20.17 percent of revenue in 2004. This was due to the fact that the Company amended the Credit Facility Agreement in the year 2003, which could reduce interest expenses by Baht 2,407 Million throughout the remaining term of the Credit Facility Agreement. This proved that the Company was able to achieve the goal in terms of survival, by minimizing the financial costs as intended by the Company.

Image: The Company intends to maintain its good image to all relevant parties, such as, customers, contractual parties, shareholders, staff and the general public. In this regard, the Company improved its communication and ensured proper understanding through various channels of media to directly and indirectly make known the Company's activities and joint responsibility towards society.

Improvement: In the early stage of operation, the Company focused on timely completion of construction. After the first mission was completed, the Company then focused on the provision of quality services to Expressway users. Quality services entail continued developments and improvements. The Company initiated various quality programs, such as, ISO, 5S, Work Improvement, and Suggestion System, with the confidence that the development of work quality should be done continuously and simultaneously with the development of quality of staff.