

### 2.3.3.3 Insurance

Insurance Policy	Coverage Value	Coverage
Property All Risks Insurance (Retail Areas)	First portion of sum insured: Baht 372,086,193; Second portion of sum insured: Baht 151,431,097	First portion: All risks property; Second portion: Business interruption Insured property: Commercial development areas in MRT stations Coverage period: July 3, 2015 - July 3, 2016
Public Liability (Retail Areas)	Limited liability: Baht 40,000,000	Insured property: Commercial development areas in MRT stations Coverage period: July 3, 2015 - July 3, 2016

### 2.3.4 Works Pending Delivery

- None -

## 3. Risk Factors

The Company realizes the significance of the management of risks from business operations under the changes of internal and external factors affecting its operational results. Risk management is considered a key instrument for business administration to ensure efficient and effective achievements and promote its competitiveness, as well as a key factor of the Good Governance. The Company thus arranges for the systematic risk management, monitoring and measures to minimize risks continuously. The Board of Directors has appointed the Corporate Governance and Risk Management Committee for policy-level consideration on the adequacy and appropriateness, with the Management to supervise the overall risk management process of the organization and perform daily routine work on behalf of the Corporate Governance and Risk Management Committee to monitor, evaluate and prepare a report on risk management to the Board of Directors for information.

In addition, the Company has also prepared an annual risk management plan and a risk management handbook as guidelines in the operations, and regularly monitor, evaluate and review risks to be in line with the ever-changing internal and external circumstances, including a backup plan in case of emergency, in order to ensure prompt action in solving problems and coordination with relevant units at all times. Risk factors which may materially affect the Company's business operations are as follows:

### 3.1 Systematic Risk

#### 3.1.1 Risk from Business Operations under Agreements with Government Sector and Government Policy

Given that the Company operates its businesses under the relevant Concession Agreements subject to the supervision of the government agencies, namely, MRTA and EXAT, differences in the contractual parties' interpretations on terms and conditions of the Concession Agreement may arise in various matters, such as, revisions of toll or fare rates, consideration to extend the Concession Agreements and responsibility for costs under the Agreements, which may require a certain period of time to come to a solution, and may impact the Company's business operations.

In addition, the political uncertainty and changes in government administration from the political party in charge may result in changes in policies, relevant laws or regulations, that possibly affect to consideration to extend the Concession Agreement or terms and conditions stated, thereby rendering EXAT or MRTA unable to perform its obligations under the relevant Agreements or may require the Company to proceed beyond those specified in the relevant Agreements or undertakings.

In order to minimize such risk, the Company will establish a joint operation system with the government agencies both at the administrative and operation levels, by sharing sufficient information to ensure good understanding towards each other, as well as closely and regularly monitoring the political situations and changes in policies. The Company will review the strategies and operation plans to be reasonably suitable to the situations and for their mutual interest in the long run.

### **3.1.2 Risk Relating to Revenues**

As the Company provides both expressway and metro services, therefore, the Company's core revenues are tolls and fares, which may be affected by several external factors beyond the Company's control, such as, metro network expansion, improved feeder systems, fare rates of other available alternative transit systems, road traffic congestion, oil prices, and growth of real estate and condominium projects as well as other businesses surrounding the metro routes, which would serve as people's destinations, etc., all of which will affect the volume of service users. In addition, the Company generates commercial development revenue, which may vary depending upon the local and overseas economic conditions, competition in advertising media and retail space lease business, as well as the progress in opening of retail shops in the stations, several factors of which are beyond the Company's control. Therefore, should the Company's revenues differ from study results or projections, it may affect the liquidity and serviceability management with respect to the existing financial obligations, such as, interest expenses, scheduled repayment of loans, operating expenses under the Agreements, as well as compensation for expressway site acquisition cost or remuneration payable to MRTA, etc.

To minimize such risk, the Company will establish a unit to closely monitor any impact which may affect the initial factors, and formulate appropriate strategies. In addition, the Company can limit potential impacts from risk factors, such as, oil prices, road traffic congestion, and fare rates of other available alternative transit systems, due to the Company's full services of expressways and metro, both of which are considered substitute products. With respect to the commercial development, the Company will develop new advertisement media to increase its commercial development revenue, such as, advertisement media management via the Passenger Information Display System (PIDs), platform billboards, and digital media, including its plans to develop more retail space.

### **3.1.3 Risks from Interest Rate and Foreign Exchange Rate Fluctuations**

Given that the Company has obliged to service interest-bearing liabilities to lenders, and plans for future investment in several projects, therefore, it may require a large amount of long-term loans. Thus, interest expenses are considered the significant expenditures for the Company. The increased interest rates on loans may affect the Company's operational results due to the fact that the interest cost in respect of the certain credit facility was at the floating interest rate, thereby exposing the Company to a risk from interest rate fluctuation or increase in the money market. However, the Company will manage such risk from interest rate fluctuation, by arranging for the loan structure, divided into loans at floating interest rate and loans at fixed interest rates including plans to issue debt instruments or debentures as suitable to the economic conditions and the Company's view of the future interest rates.

In addition, the Company will incur expenses in foreign currencies for purchase of rolling stock from overseas, maintenance cost of the M&E Equipment, and insurance premiums. Thus, should the Baht value depreciate, the Company's expenses will increase accordingly. However, the proportion of the expenses in foreign currencies is low. Moreover, the Company will set up a policy to minimize risk from exchange rate, such as, negotiations for reduction of foreign currency expenses and buying forward, etc.

### **3.1.4 Risk from Serious Accidents, Public Unrest, and Natural Perils**

The Company's businesses of both construction and management of the expressways and metro are exposed to 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, including gathering of activities for inciting public unrest, which may cause the Company to suspend its services and lose its revenues. For this reason, the Company has set forth emergency plans in response to any events which may suddenly occur, for example, removal of various significant and essential M&E equipment in the management of the Expressways for storage at the safe place, and

arranges for staff training to ensure that the staff in charge will be able to immediately take actions to resolve such emergency, for instance, emergency drills of all relevant units inside and outside the Company by way of simulation of such various situations as emergency in the metro stations from bomb threat and bomb blast in the metro stations, trains breakdown and stop inside the tunnel, fire in the rolling stock, metro stations or tunnel, etc., as well as establishes a unit for monitoring, alerting and coordinating with relevant agencies to prevent the occurrence of any serious accident and to be ready for rescue operations.

The Company has taken out insurance against property all risks, business interruption, public liability, and terrorism in respect of the Metro service business.

### **3.1.5 Risk in respect of Personnel**

The risk from shortage of competent personnel is considered one of the Company's main risks, as they are key factor to drive our organization to success. The Company gives priority to the personnel risk management, starting from the nomination and selection of good and qualified personnel suitable for the Company; continuous staff training courses to improve knowledge, skills and abilities in various fields necessary for performance of work based on each staff's position and designated duties; encouragement of the staff morale; consideration of appropriate and fair remuneration and welfare; review and revisions of the operation process and work system to ensure readiness at all times, as well as preparation of succession plan and establishment of a working group comprising high-level executives to set up guidelines in the selection of staff to ensure the availability of personnel, both in the executive and supervisor levels, in order to prevent the risk from shortage of personnel having knowledge, expertise and technical skills for specific work. The Company has arranged for collection of the body of knowledge for specific work and extended the results to the knowledge management program, in order to continuously improve the work process.

### **3.1.6 Risk from Delayed Construction and Operation of the Projects**

The Company has accepted the transfer of the Concession Agreements of BECL and BMCL, namely, the Concession Agreement for Investment, Design, Construction, Operation, Service and Maintenance of the Si Rat - Outer Ring Road Expressway Project, and the MRT Purple Line Project, Bang Yai - Rat Burana, Bang Yai - Bang Sue Section (Klong Bang Phai Station - Tao Poon Station), Contract 4: Concession for Supply of M&E Systems and O&M Services.

As the Company is obliged to comply with the provisions of the Concession Agreements, which will specify the construction period and value, therefore, in case the construction is delayed and not completed according to schedule, or should in the future the actual value of the M&E equipment, metro system, or other construction costs is different from that specified in the relevant Agreements, the Company is exposed to a risk from cost overrun.

To minimize such risk in respect of both delayed work completion and cost overrun, the Company has executed an agreement with CH. Karnchang Public Company Limited, which has expertise and experience in such operations, to manage the projects on a lump sum turnkey basis, subject to the scope of work, duration, and value in line with the conditions in the Concession Agreements.

## **3.2 Corporate Specific Risk**

### **3.2.1 Risk from Legal Disputes**

The Company and NECL have a total of 12 disputes with EXAT on different interpretation of several matters, such as, adjustment of toll rates and responsibility for costs under the Agreements. The disputes were referred to the Arbitral Tribunal in accordance with the dispute settlement procedures under the Agreements and in the Administrative Court, divided into the disputes that the Company and NECL referred to the dispute settlement proceedings under the Agreements and demanded for damages with the total amount until the date of submission of the disputes of approximately Baht 28,179.8 Million; and the disputes that EXAT submitted claims for damages with the total amount until the date of submission of the disputes of approximately Baht 9 Million.

Most of the major claims for high value damages are made by the Company from EXAT. Therefore, the decision should not materially have any negative risk towards the Company's operational results.

### 3.2.2 Risk from Return on Investments in Companies less than Projections

The Company has accepted the transfer of investments in companies whose shares were held by BECL and BMCL, therefore, the Company may be exposed to a risk from return on investments in companies less than projections.

To minimize such risk, the Company will take into account the proportion of investments in companies in line with the Company's investment policy, which would enable the Company to participate in setting out policies and monitor the operations of the invested companies.

### 3.2.3 Risks Relating to Fluctuation of Cost of Fare and Operating Cost

Cost of fare is deemed the main expenditure of the Company's management of the mass rapid transit system project, which comprises repair and maintenance costs for the metro and civil infrastructure, public utility cost, personnel cost, and payment of remuneration from fare revenue.

As for the maintenance costs under the long-term M&E contract, which the Company accepted the transfer from BMCL, the Euro-denominated payments were adjusted based on the German Consumer Price Index, and Baht-denominated payments must be adjusted based on the Bangkok Consumer Price Index, thereby exposing the Company to risk due to changes in such indices.

The public utility cost mainly comprises the cost of electricity used at the metro stations and for train operations. The cost of electricity may be adjusted according to the electricity rates of the Metropolitan Electricity Authority, which may result in the Company's increased cost.

The annual remuneration from fare revenue was recorded in two entries, namely, costs of fare box and deferred remuneration, representing deferred expenses against future fare revenue.

Therefore, the Company's costs of fare box vary according to the aforesaid costs. However, regardless of the annual remuneration from fare revenue, in the past, the Company was able to effectively control its costs of fare box. Besides, the costs of fare box are mostly fixed costs, not varying directly according to the increased volume of passengers, provided that there is no material change in the volume of passengers to the extent that the Company is required to add the number of trains for service to enhance the capacity to accommodate the passengers.

In the MRT Purple Line Concession Agreement, the service fees for the O&M Services payable by MRTA to the Company are calculated and based on the projections of operating expenses estimated by the Company, whereby such service fees may be adjusted only based on the actual inflation rate and electricity charge rate under the method specified in the Concession Agreement. Therefore, profits from the Operation Service will vary according to the Company's ability to manage the actual costs and expenses to mirror the specified projections. Should the actual costs and expenses be different from the projections, the Company's operational results may be affected since the Company is not able to request compensation or increase the service fees from MRTA.

However, with the expertise and experience in management of the MRT Blue Line Project, the Company is confident in its ability to efficiently manage costs and expenses for operations to be close to the projections.

### 3.2.4 Risk from Work Operations of Expressway Construction and Management Business

The Company takes into account the risk from operations of expressway construction and management business which 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. Therefore, it is greatly necessary to have a thorough supervision system with due care. The Company has then arranged for a specific unit having duties to monitor and maintain the routes and toll collection system in accordance with the operation standards, which can be assured by the experience and expertise of staff in charge from all divisions, thereby leading to the quality and availability of efficient, complete and continued service. In addition, the Company has also established the preventive measure for the significant structures of the expressway systems so as to be available for full-time service by way of drawing up a plan for inspection of the structures of both the Si Rat Expressway and the Udon Rattaya Expressway to be in line with the inspection by JMI Pacific Co., Ltd., a designing company with expertise in structural inspection. The monitoring,

surveillance and maintenance were conducted to ensure that there would be no impact on the use of the expressways. With respect to the toll collection, communication and traffic control systems, which are important to its 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.

Moreover, the Company may be exposed to the risk from non-functional toll collection system equipment which may arise by various causes, such as, non-functional electrical system due to power outage from the Metropolitan Electricity Authority, error processing by the operating system or computer virus infection in the system which destroys data in the operating system, including data and information hacks, thereby causing damage to the system, etc. In this regard, the Company gives high priority to such risk management by arranging for power backup system, security system for access to significant systems by third parties, determination of authorization levels of access to information and equipment, and installation of virus scan software and data backup system in the operating system to ensure instant substitution.

### **3.2.5 Risks from Engagement of Siemens as Main Contractor for Supply and Maintenance of the Company's M&E Equipment**

The Company has accepted the transfer of the agreement for procurement of the M&E Equipment and an agreement for maintenance of the M&E Equipment with Siemens AG, Germany, and Siemens Limited, Thailand, which will expire in 2024. Thus, in the event that such Siemens group is unable to provide services under the agreements to the Company or there is any change in the maintenance agreement, the Company's business operation may be affected.

According to a study of information from members in the international federations of public transport operators, e.g., UITP, APTA, NOVA Group of Metros, as well as advice from Lloyd's Register Rail, the Company's highly experienced consultant, it is possible to select and procure M&E Equipment from other manufacturers which will be compatible with its existing system. In this regard, the Company has a policy to develop the quality of its personnel to have sufficient capabilities in working with local and overseas equipment manufacturers and contractors in the maintenance and repair of the M&E Equipment and the rail system to improve its efficiency without reliance on the sole existing manufacturer.