

**IRPC Public Company Limited and its Subsidiaries**  
**Management Discussion and Analysis (MD&A)**  
**Quarter 3/2008**

The US Sub-prime mortgage crisis has caused tremendous catastrophe to US financial communities and the consequences have multiplied to other parts of the world. This is also a factor behind wildly fluctuation in crude oil markets of which Dubai crude oil spiked from 57 USD/BBL at the beginning of 2007 to its peak 140 USD/BBL in July 2008, and later on nose-dived to 96 USD/BBL at the end of September 2008. The wild fluctuation is hard to cope for businesses, and has caused huge stock loss to the company.

The company takes the changing business environments into consideration and has prudently reviewed investment projects in each and every aspect, also continuously improved our efficiency management, control expenses as well as set our strategies to enhance our competitiveness i.e.

The board of directors approved the company to purchase shares of PTT Polymer Marketing Company Limited ("PTTPM") from PTT Public Company Limited ("PTT") on 22 August 2008 at book value for 25% of total shares or total value of 58.32 million Baht. The company believes PTTPM would help broaden marketing channels for polymer products both domestic and export markets and strengthen company's competitiveness.

The company has commenced Enterprise Resource Planning Software System (ERP – SAP) in July 2008, replacing the in-house developed system. This enhances data integrity among group of businesses and linkage of data throughout the supply chain which will empower information management in the organization ranging from production planning, inventory management, finance and accounting, HR and etc.

The company manages risk by taking product spread swap contracts for refined products and crude oil with PTT. In 3Q08 the product amount that company took under this contract was 1.25 million barrel, which the company gained Baht 174 million.

**Operating performance**

The average utilization rate for refinery in 3Q08 was 159,787 barrel/day or 74%, declined from that of the same period last year 187,444 barrel/day or 87% due to lower demand resulting from economic slowdown plus reclining China's demand after the end of Olympic Games.

(million Baht)	3Q08	3Q07	Change YoY	2Q08	Change QoQ
<b>Income Statements</b>					
Sales Revenue	68,727	55,641	24%	73,740	-7%
Cost of sales *	71,973	51,634	39%	66,920	8%
Gross Profit	-3,246	4,007	-181%	6,819	-148%
Net Profit	-4,430	3,743	-218%	5,126	-186%
Earning per Share (Baht)	-0.23	0.19	-218%	0.26	-186%

**Note :** For 3Q08, the company has accounted for allowance for net realizable value for inventories amounting to Baht 4,629 million which has been included in cost of sales.

3Q08 comparing to the same period last year, IRPC and subsidiaries have total revenue of Baht 68,727 million, and increase of Baht 13,086 million or 24% as a result of inflated prices while the sales volume slightly declined due to bearish market condition. Cost of good sold rose 39% as a result of inflated price of crude oil which prices only had the sharp drop recently that caused huge stock loss to the company, therefore, the company set allowance Baht 4,629 million to reflect net realizable value of inventory amount which was included in cost of sales.

Selling and administration expenses for 3Q08 was Baht 1,431 million, an increase of Baht 266 million from the same period last year or 23%. This was due to the loss from sales and revaluation of investment on marketable securities by Baht 209 million and interest expenses of Baht 395 million, or Baht 95 million increased YoY due to higher short term loan to finance higher working capital need.

### **Revenue Structure**

(Million Baht)	3Q08				3Q07			
	Domestic	Export	Total	%	Domestic	Export	Total	%
<b>1. Petrochemical Products</b>								
1.1 Plastic Resins	5,387	5,170	10,557	15.36	5,166	5,583	10,749	19.32
1.2 Olefins	3,195	23	3,218	4.68	1,808	26	1,834	3.30
1.3 Aromatics	2,144	692	2,836	4.13	1,813	882	2,695	4.84
1.4 Polyol	134	255	389	0.57	124	148	272	0.49
<b>Total</b>	<b>10,860</b>	<b>6,140</b>	<b>17,000</b>	<b>24.74</b>	<b>8,911</b>	<b>6,639</b>	<b>15,550</b>	<b>27.95</b>
<b>2. Petroleum Products</b>								
2.1 Refined Products	18,457	15,949	34,406	50.06	22,737	4,092	26,829	48.22
2.2 Naphtha	-	3,130	3,130	4.55	-	2,758	2,758	4.96
2.3 Lube Base Oil	2,252	1,479	3,732	5.43	1,598	1,013	2,611	4.69
2.4 Long Residue	6,443	-	6,443	9.37	3,719	1,629	5,349	9.61
2.5 Asphalt and by-products	702	2,434	3,135	4.56	612	1,190	1,802	3.24
<b>Total</b>	<b>27,854</b>	<b>22,992</b>	<b>50,846</b>	<b>73.98</b>	<b>28,667</b>	<b>10,682</b>	<b>39,349</b>	<b>70.72</b>
<b>3. Others</b>	<b>881</b>	<b>-</b>	<b>881</b>	<b>1.28</b>	<b>742</b>	<b>-</b>	<b>742</b>	<b>1.33</b>
<b>Grand Total</b>	<b>39,595</b>	<b>29,132</b>	<b>68,727</b>	<b>100</b>	<b>38,319</b>	<b>17,321</b>	<b>55,641</b>	<b>100</b>

At the end of 3Q08, IRPC and its subsidiaries have total assets of Baht 139,016 million, and increase of Baht 5,840 million YoY as a result of the increase of inventory amount Baht 10,677 million due to sluggish market and retailers' destocking. Total Liability was Baht 49,351 million, an increase Baht 8,952 million YoY due to higher short term loans to finance higher working capital need. Total cash lower by Baht 4,856 million from ending of 2007 due to cash outflow for operating activities Baht 4,638 million as a result of higher inventory amount. The cash outflow for investing activities was Baht 3,347 million, mainly for the investment projects such as Power Plant Project, ABS Expansion Project. The cash inflow from financing activity was Baht 3,129 million, inflow from short-term loan from financial institution Baht 9,583 million, cash payment for dividend was Baht 5,850 million and cash payment for interest expense was Baht 939 million. Combining net cash outflow of Baht 4,856 million to beginning cash of Baht 11,144 million, the company has ending cash balance of Baht 6,288 million.

## Employee Stock Option Program

The company allocated the warrant to subscribe the company share to employees in the amount of up to 975 million unit. The tenor of the warrant is 4 year with exercise ratio 1:1 and exercise price of 2.88 Baht/share. As of 30 September 2008, there were 61.71 million warrants exercised or 6.33 of total reserved shares. The total proceeds from the exercise of warrants was Baht 178 million. The company has registered the paid up share capital increase with the Ministry of Commerce on 20 October 2008 to Baht 19,705,570,300. There are remaining exercisable warrant 78.27%.

## Capital Investment Projects

### (1) CAPEX Phase I

The CAPEX Phase I for 2007-2009. Total budget for investment is USD 288.7 million comprise of the Plastic Resin Expansion Project, Power Plant Project and Safety Improvement Projects. The projects are proceeding on schedule as follows:

Project	CAPEX Amount (Million USD)	Purpose	Progress
HDPE Compound	12.6	Increase capacity from 17 KTA to 57 KTA	- 90% progress
ABS Expansion	17.1	Increase capacity from 96 KTA to 117 KTA	- 90% progress
Power Plant	220.0	CHP 216 MW for internal use, reduce power, steam cost and improve power stability	- In the process of Engineering Work and obtain EIA approval
Safety and Environment Improvement	39.0	Continual improvement of safety and environment standards	- Implementing
<b>Total</b>	<b>288.7</b>		

### (2) CAPEX Phase II

The CAPEX Project Phase II for 2009-2011. The CAPEX budget is primarily estimated around USD 1,200 million comprise of Refinery Improvement and Euro IV Standard Compliance which is to be imposed on 1 January 2012. Moreover, the CAPEX phase II includes the Propylene Booster Project and Port Dredging Project.

However, considering economic slowdown and changing business environments, the company has reviewed economic returns on every project. The Propylene Booster Project and ABS Expansion 6 are proceeding on original plan while other projects on phase II are being reviewed on its economic feasibility under fluctuating cost and returns.

### Propylene Booster Project

Currently, the company has capacity to produce propylene of 312 KTA which is insufficient for PP production, therefore, the company plans to increase propylene plan

capacity by 100 KTA. The total budget is USD 50 million. The project is scheduled to commence in 2009 and to be completed by 2011.

### **ABS Expansion 6 Project**

The company plan to increase ABS capacity from 117 KTA to 200 KTA with the budget of USD 70 million. The project is scheduled to commence in 2009 and to be completed by 2011.

<b>Key Financial Ratio</b>	<b>3Q08</b>	<b>3Q07*</b>
Current Ratio (times)	2.36	3.34
Quick Ratio (times)	0.66	1.15
Debt to Equity Ratio (times)	0.55	0.43
Gross Profit Margin	-4.72%	7.20%
Net Profit Margin	-6.38%	6.59%
ROE	-4.78%	4.23%
ROA	-3.08%	3.08%

**Note :** \* restated