

**IRPC Public Company Limited and Subsidiaries**  
**Management Discussion and Analysis**  
**For the year 2008**

In the year 2008, our economy was entering into the downturn resulted from global economic crisis especially in our major trade counterpart countries such as USA, European Union, Japan and China which all experiencing recession. This crisis drove down both international and domestic demand since the third quarter, exacerbated by national political conflicts, in particular, the international airports closure in late November 2008. Office of the National Economic and Social Development Board reported Thailand's Gross Domestic Products (GDP) growth rate declined from 4.9% in 2007 to 2.6% in 2008.

Crude oil market in 2008 was in erratic swings, Dubai crude was traded at 90 USD/barrel at beginning of the year before shot up to make historic high at 141 USD/barrel in July, and later plunged to around 36 USD/barrel in December. In the second half of 2008, as the demand declined, the Company has reduced its average operating rate to 159,670 barrel/day, this made annual operating rate dropped to 170,035 barrel/day or 10% decrease from last year.

The high fluctuation of crude and refined oil price, especially the slump of oil prices in the fourth quarter caused stock loss and inventory loss (LCM) in the amount of 15,469 million baht. The operating performance for the year 2008, the Company recorded consolidated sales revenue of 244,694 million baht, 8% increased from 2007 while cost of goods sold increased by 22%, resulted in negative gross profit of 13,072 million baht. Other revenues declined from the previous year by 3,335 million baht. Hence, the Company recorded net loss for the year 2008 in the amount of 18,262 million baht.

**1. Operating Performance**

Income Statements	(Unit : Million Baht)			
	2008	2007	Change	%
Sales	244,694	227,518	17,176	8%
Cost of sales	257,766	212,013	45,752	22%
Gross Profit (Loss)	(13,072)	15,505	(28,577)	(184%)
Selling and Administrative Expenses	4,569	4,895	(326)	(7%)
Profit (Loss) before finance costs and tax	(16,780)	14,835	(31,615)	(213%)
Financial costs	1,398	1,107	292	26%
Net Profit (Loss)	(18,262)	13,683	(31,945)	(233%)
Earning (Loss) per share (Baht)	(0.93)	0.70	(1.63)	(233%)

**Petroleum Business**

In 2008, sales revenue from petroleum products was 180,294 million baht, an increase of 17,592 million baht from 2007 or 11% as a result of soaring price by 23% whereas sales volume declined by 10%. The high speed diesel sales volume was declined by 296 million liters or 7% and gasoline sales volume slightly declined by 1%. Due to the slump in oil prices that leads to stock loss, petroleum business generated operating loss in 2008 in the amount of 13,653 million baht.

**Petrochemical Business**

The Company recorded sales revenue from petrochemical products in 2008 in the amount of 61,488 million baht, slightly decreased by 1% from last year. Polymers sales revenue was 41,081 million baht, 2% declined from the same period last year

as a result of 3% increase in price and 5% decrease in sales volume. The sales volume declined by 45,716 tons due to sluggish demand derived from economic slowdown. Since the third quarter, crude oil price was on the free-fall therefore downstream operators held back their orders, consequently, petrochemical product prices deeply plunged. In 2008, the Company recorded operating loss from petrochemical business in the amount of 2,900 million baht.

### Sales Revenue and Operating Profit by Business Segment

	(Unit : Million Baht)			
	2008	2007	Change	%
<b>Sales Revenue</b>				
Petroleum Products	180,294	162,702	17,592	11%
Petrochemical Products	61,488	61,968	-480	-1%
Other Segments	2,912	2,848	64	2%
	<b>244,694</b>	<b>227,518</b>	<b>17,176</b>	<b>8%</b>
<b>Operating Profit (Loss)</b>				
Petroleum Products	(13,653)	4,774	-18,427	-386%
Petrochemical Products	(2,900)	5,518	-8,418	-153%
Other Segments	(261)	340	-601	-177%
Inter-company transactions	432	384	48	13%
<b>Total</b>	<b>-16,382</b>	<b>11,016</b>	<b>-27,398</b>	<b>-249%</b>

The Company has put in place, the expenses control and efficiency improvement measures such as Margin Improvement Review, as well as hiring Shell Global Solution International BV, an expert in petroleum and petrochemical business, to study and advise the company in efficiency and production process improvement. The Company successfully cut cash cost by 0.45 USD/barrel. Selling and administrative expenses were reduced by 326 million baht or 7% due to decrease in employee related expense, consultant fee, advertisement expenses etc.

The Company recorded other revenue in 2008 in the amount of 956 million baht, a decrease of 3,336 million baht from last year due to lower FX gain and lower gain from investment in securities. The Company recorded FX gain in 2008 in the amount of 112 million baht, a decline from last year. The gain from investment in securities was declined by 1,717 million baht. In addition, the Company has unrealized loss from revaluation of investment in the amount of 1,050 million baht and gain from hedging on forward contract of refined and crude oil spread in the amount of 670 million baht.

## 2. Financial Status

	(Unit : Million Baht)			
	2551	2550	Change	%
Current Assets	37,919	68,331	(30,412)	-45%
Total Assets	104,112	133,175	(29,063)	-22%
Current Liabilities	16,370	21,776	(5,406)	-25%
Total Liabilities	34,918	40,399	(5,481)	-14%
Shareholders' Equity	69,195	92,777	(23,582)	-25%

Consolidated total assets at the end of 2008 amounted to 104,112 million baht, a decrease of 29,063 million baht from last year or 22%. The main reason was the decrease in inventory in the amount of 18,633 million baht resulted from lower inventory needs according to reduced operating level as well as revaluation of

inventory to net market realizable value. Trade receivable was decrease by 7,277 million baht due to decreasing sales volume and prices in the second half of the year.

Consolidated total liabilities at the end of 2008 amounted to 34,918 million baht, a decrease of 5,481 million baht from 2007, as a result of decrease in account payable 12,614 million baht. The Company also early redeemed Long-term debentures in the amount of 360 million baht for the purpose of cash flow management and financial cost reduction thus net long-term debenture amount at the end of the year recorded at 18,364 million baht. However, short-term loan for working capital increased by 8,215 million baht

Interest Bearing Debts at the end of year 2008 are as follows:

	Million Baht	Interest Rate
<b>Short-term Debt</b>		
Short-term loan	8,250	3.55% - 5.15%
<b>Long-term Debt</b>		
USD nominated debentures	8,724	6.375%
Thai Baht nominated debentures	9,640	5.05% - 5.29%
<b>Total</b>	<b>26,614</b>	

### 3. Financial Liquidity

IRPC and subsidiaries recorded cash balance at the end of the year 2008 in the amount of 8,550 million baht, a decrease of 2,594 million baht from last year. The Company had net cash flow categorized by activities in 2008 as follows: the company had net cash flow from operations in the amount of 659 million baht resulted from cash outflow from operating loss before reconciliation of change in operating assets and liabilities 7,923 million baht, reconciled with cash inflow from change in operating assets and liabilities; decrease in inventories and trade account receivables provided cash 21,001 million baht whereby decrease in trade account payables resulted in use of cash 12,611 million baht. The Company had net cash outflow from investments in the amount of 4,518 million baht, mainly due to payment of investment projects such as Combined Heat and Power Plant project, Plastic Resin Capacity Expansion projects. Net cash flow from financing activities was 1,265 million baht, as a result of drawdown of short-term loan from financial institutions in the amount of 8,215 million baht, cash proceeds from exercise of ESOP warrants 592 million baht, cash payment for dividend 5,850 million baht and interest payment 1,375 million baht. Combined the net cash outflow 2,594 million baht with beginning cash balance of 11,144 million baht, the company had ending cash balance at the end of the year 2008 in the amount of 8,550 million baht.

### 4. Investment Project

Investment projects phase 1 is aimed to increase production capacity as well as enhance business competitiveness. In the year 2008, 2 investment projects were completed; ABS/CCM capacity expansion projects which enable the Company to increase ABS production capacity by 21 KTA and HDPE Compound (Pipe Grade) Capacity Expansion project which enable the Company to increase HDPE Compound (Pipe Grade) production Capacity by 40 KTA. For, the 210 Megawatt Combined Heat and Power Plant project which will generate electricity and steam for internal use, reduce cost of steam and increase power stability, the project is in the process of obtaining EIA approval.

The Investment Project Phase 2 is planned to execute during 2009 – 2011 with the preliminary investment budget of USD 1,200 million. With current sluggish economic situation that caused shrinkage in demand, the Company has reviewed economic

returns on every project. The Company believes it is appropriate to reschedule non-urgent projects including 1) Euro IV Standard Compliance Project, 2) Refinery Improvement and Capacity Expansion Project which will increase refining capacity from 215 kbpd to 258 kbpd, 3) ABS/SAN Expansion 6 and 4) Port Dredging Project. The project that proceeding according to original plan is Propylene Booster Project which will increase capacity of propylene production by 100 KTA for internal use as raw materials for PP production. The estimated investment budget for Propylene Booster Project is USD 88 million, whereby the project is set to commence in 2009 and planned for completion in 2011.

## 5. Amendment in Accounting Policy

The Company has amended accounting policies to comply to Thai Accounting Standard No. 31 (“TAS 31”) Therefore, the company has amended the accounting policy for the valuation of inventories from the last-in, first-out method to weighted average method, effective from 1 January 2008 and apply retrospective adjustment to 2007 financial statements. The effect to 2007 financial statements are increase in retained earnings as at beginning of 2007 in the amount of 1,664 million baht, increase in retained earnings as at ending of 2007 in the amount of 2,361million baht as a result of increase in inventories at 2007 ending 2,361 million baht and decrease in cost of goods sold 697 million baht, consequently 2007 net profit increased by 697 million baht or 0.04 baht/share.

## 6. Post balance sheet event

- On 7 January 2009, the Company entered into the long-term loans agreement with five local financial institutions in the amount of 10,000 million baht for the funding of 5 investment projects as follows:
  - (1) ABS-CCM Expansion
  - (2) HDPE Pipe Grade Expansion Project
  - (3) Combined Heat and Power Project
  - (4) Propylene Expansion Project
  - (5) ABS/SAN Expansion Project
- The Board of Directors at the meeting held on 17 February 2009 has resolved that the Company to pay dividend for the operation of the year 2008 from retained earning at the rate of 0.18 baht/share whereby the dividend for the operation period of second half of 2008 will be at the rate of 0.08 baht/share and will be paid on 7 May 2009. The Company will propose the dividend payment to the Annual General Meeting of Shareholders 2009 on 8 April 2009 for the approval.

## 7. Key Finance Ratios

	<b>2008</b>	<b>2007</b>
Current Ratio (times)	2.32	3.14
Quick Ratio (times)	0.92	1.19
Debt to Equity Ratio (times)	0.50	0.44
Gross Profit Margin	(5.34%)	6.51%
Net Profit Margin	(7.43%)	5.89%
Return on Equity	(22.54%)	15.57%
Return on Assets	(15.38%)	10.49%