

Nam Ngum 2 Power Company Limited
Audit report and financial statements
31 December 2011

**Independent auditor's report to the shareholders of
Nam Ngum 2 Power Company Limited**

I have audited the accompanying financial statements of Nam Ngum 2 Power Company Limited ("the Company"), which comprise the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility


My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respect, the financial position of the Company as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Siraporn Ouaanunkun
Certified Public Accountant (Thailand) No. 3844

Ernst & Young Office Limited
Bangkok, Thailand
23 March 2012

Nam Ngum 2 Power Company Limited**Statement of financial position****As at 31 December 2011**

		(Unit: Baht)	
	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Assets			
Non-current assets			
Property, plant and equipment, net	8	28,650,915,638	62,268,755
Project costs during construction phase	9	316,801,911	28,557,197,250
Other non-current assets		<u>4,378,452</u>	<u>6,986,461</u>
Total non-current assets		<u>28,972,096,001</u>	<u>28,626,452,466</u>
Current assets			
Trade and other receivables - related parties	18	388,849,227	54,130,226
Other current assets	10	19,790,585	902,660
Cash at bank and on hand	11	<u>1,584,985,929</u>	<u>214,563,436</u>
Total current assets		<u>1,993,625,741</u>	<u>269,596,322</u>
Total assets		<u>30,965,721,742</u>	<u>28,896,048,788</u>
Equity and liabilities			
Equity			
Issued capital	12	8,809,000,000	8,565,866,000
Call in arrears - Parent Company	18	(12,564,348)	(12,589,948)
Retained earnings (deficit)		788,692,428	(386,470,787)
Statutory reserve	13	<u>87,632,492</u>	<u>-</u>
Total equity		<u>9,672,760,572</u>	<u>8,166,805,265</u>

The accompanying notes are an integral part of the financial statements.

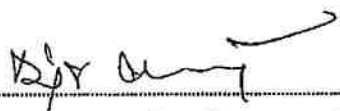
Nam Ngum 2 Power Company Limited
Statement of financial position (continued)


As at 31 December 2011

(Unit: Baht)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Equity and liabilities (continued)			
Non-current liabilities			
Long-term loans from financial institutions, net of current portion	14	19,903,432,320	19,868,037,700
Provision for long-term employee benefits	15	409,516	-
Other long-term liabilities - related party	16, 18	74,326,019	-
Total non-current liabilities		<u>19,978,167,855</u>	<u>19,868,037,700</u>
Current liabilities			
Construction payable - related company	18	-	399,996,300
Trade and other payables	17, 18	145,535,727	139,362,239
Loans from the Parent Company and accrued interests	18	320,992,711	300,784,371
Current portion of long-term loans from financial institutions	14	829,309,680	-
Retention payable - related company	18	17,526,558	20,166,251
Other current liabilities		1,428,639	896,662
Total current liabilities		<u>1,314,793,315</u>	<u>861,205,823</u>
Total liabilities		<u>21,292,961,170</u>	<u>20,729,243,523</u>
Total equity and liabilities		<u>30,965,721,742</u>	<u>28,896,048,788</u>

The accompanying notes are an integral part of the financial statements.


 Mr. Kamphuy Jiraruensak


 Mr. Thanawat Trivisvavet



Nam Ngum 2 Power Company Limited

Statement of comprehensive income

For the year ended 31 December 2011

			(Unit: Baht)
	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Operating income			
Revenue from sales			
Sales of electricity	18	3,802,487,709	-
Gain from calculation of present value of long-term liabilities	16	100,718,378	-
Interest income		<u>352,386</u>	<u>3,660</u>
Total operating income		<u>3,903,558,473</u>	<u>3,660</u>
Operating expenses			
Cost of sales of electricity		(1,179,245,636)	-
Administrative expenses		<u>(438,386,103)</u>	<u>(87,437,424)</u>
Total operating expenses		<u>(1,617,631,739)</u>	<u>(87,437,424)</u>
Profit (loss) before finance costs		2,285,926,734	(87,433,764)
Finance costs		<u>(1,023,131,027)</u>	<u>-</u>
Profit (loss) for the year	6	1,262,795,707	(87,433,764)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>1,262,795,707</u>	<u>(87,433,764)</u>
Basic earnings (loss) per share	7	<u>1.44</u>	<u>(0.11)</u>

The accompanying notes are an integral part of the financial statements.

Nam Ngum 2 Power Company Limited
Statement of changes in equity
For the year ended 31 December 2011

(Unit: Baht)

	Issued and paid-up share capital	Call in arrears	Retained earnings (deficit)	Statutory reserve	Total
As at 1 January 2010	7,605,450,200	(12,589,948)	(299,037,023)	-	7,293,823,229
Called up ordinary shares (note 12)	960,415,800	-	-	-	960,415,800
Total comprehensive income for the year 2010	-	-	(87,433,764)	-	(87,433,764)
As at 31 December 2010	<u>8,565,866,000</u>	<u>(12,589,948)</u>	<u>(386,470,787)</u>	-	<u>8,166,805,265</u>
As at 1 January 2011	8,565,866,000	(12,589,948)	(386,470,787)	-	8,166,805,265
Called up ordinary shares (note 12)	243,134,000	-	-	-	243,134,000
Decrease in call in arrears	-	25,600	-	-	25,600
Transferred to statutory reserve (note 13)	-	-	(87,632,492)	87,632,492	-
Total comprehensive income for the year 2011	-	-	1,262,795,707	-	1,262,795,707
As at 31 December 2011	<u>8,809,000,000</u>	<u>(12,564,348)</u>	<u>788,692,428</u>	<u>87,632,492</u>	<u>9,672,760,572</u>

The accompanying notes are an integral part of the financial statements.

Nam Ngum 2 Power Company Limited**Statement of cash flows****For the year ended 31 December 2011**

	<u>2011</u>	<u>2010</u>
		(Unit: Baht)
Cash flows from operating activities		
Profit (loss) from operating activities	1,262,795,707	(87,433,764)
Adjustment to reconcile profit (loss) to net cash flows:		
Depreciation	834,203,438	5,080,307
Loss on equipment written-off	-	91,378
Unrealised loss on exchange	216,885,140	-
Provision for long-term employee benefits	409,516	-
Interest expenses	1,019,187,724	-
Gain from calculation of present value of long-term liabilities	<u>(100,718,378)</u>	<u>-</u>
Operating profit (loss) before working capital changes	3,232,763,147	(82,262,079)
(Increase)/decrease in:		
Trade and other receivables	(375,600,128)	(6,049,099)
Other current assets	(18,887,925)	1,155,585
Other non-current assets	(2,278,939)	(1,946,802)
Increase/(decrease) in:		
Trade and other payables	106,096,875	(948,929)
Retention payable - related company	5,808,816	-
Other current liabilities	531,978	398,240
Other long-term liabilities - related party	<u>173,411,103</u>	<u>-</u>
Net cash flows from (used in) operating activities	<u>3,121,844,927</u>	<u>(89,653,084)</u>
Cash flows from investing activities		
Increase in project costs during construction phase	(968,858,773)	(1,991,928,423)
Increase in property, plant and equipment	(344,332,687)	(40,999,227)
Cash paid for interest capitalised as part of project costs		
during construction phase	<u>(305,089,946)</u>	<u>(1,158,761,413)</u>
Net cash flows used in investing activities	<u>(1,618,281,406)</u>	<u>(3,191,689,062)</u>

The accompanying notes are an integral part of the financial statements.

Nam Ngum 2 Power Company Limited**Statement of cash flows (continued)****For the year ended 31 December 2011**

	(Unit: Baht)	
	<u>2011</u>	<u>2010</u>
Cash flows from financing activities		
Increase in long-term loans from financial institutions	589,154,100	2,355,639,018
Cash received from called up ordinary shares	243,134,000	960,415,800
Cash paid for interest expenses	(1,010,002,920)	-
Cash received from call in arrears	25,600	-
Net cash flows from (used in) financing activities	<u>(177,689,220)</u>	<u>3,316,054,818</u>
Net increase in cash and cash equivalents	1,325,874,301	34,712,672
Effect of exchange rate changes on		
cash and cash equivalents	44,548,192	-
Cash and cash equivalents at beginning of year	<u>214,563,436</u>	<u>179,850,764</u>
Cash and cash equivalents at end of year	<u><u>1,584,985,929</u></u>	<u><u>214,563,436</u></u>

Supplemental cash flows information**Non-cash transactions**

Increase in project costs during construction phase		
from construction payable and project payable	-	236,631,765
Increase in project costs during construction phase		
from accrued interests for shareholders	20,208,340	18,785,717
Decrease in project costs during construction phase		
from accrued income from sales of electricity		
during commissioning phase	-	40,881,127
Increase (decrease) in project costs during construction		
phase from loss (gain) on exchange	14,982,200	(544,771,366)
Transfer project costs during construction phase to		
property, plant and equipment	29,050,579,867	-
Increase in property, plant and equipment from		
project payable and other payable	23,050,820	-

The accompanying notes are an integral part of the financial statements.

Nam Ngum 2 Power Company Limited
Notes to financial statements
For the year ended 31 December 2011

1. Corporate Information

- a) Nam Ngum 2 Power Company Limited ("the Company") is a limited company incorporated under the laws of the Lao People's Democratic Republic. The major shareholder of the Company is SouthEast Asia Energy Limited ("the Parent Company"), which was incorporated in Thailand.

The Company is principally engaged in the generation and sale of electricity from the Nam Ngum 2 Hydroelectric Power Project in the Lao People's Democratic Republic. On 26 March 2011, the Company has commenced the Initial Operation Date (IOD) as specified in the Power Purchase Agreement with the Electricity Generating Authority of Thailand.

The Company's registered office is located at 215 Lanexang Avenue, Baan Chiengyuen, Muang Chantaburi, Kamphaeng Nakorn, Vientiane, Lao People's Democratic Republic.

The financial statements of Nam Ngum 2 Power Company Limited for the year ended 31 December 2011 were authorised for issue by the Company's Board of Directors on 23 March 2012.

- b) On 27 December 2007, the branch of the Parent Company entered into a novation agreement with the Company and the Electricity Generating Authority of Thailand ("EGAT") to transfer rights and obligations under the Power Purchase Agreement with EGAT to the Company to sell electricity at rates specified in the agreement. The period of the Power Purchase Agreement ("PPA") is 25 years, commencing from the Commercial Operation Date.

- c) On 9 January 2008, the branch of the Parent Company entered into novation agreements to transfer all rights and obligations under the Concession Agreement and other agreements relating to the Nam Ngum 2 Hydroelectric Power Project including the exclusive rights under the Memorandum of Understanding with the Government of the Lao People's Democratic Republic on 11 April 2007 to carry out the feasibility study for the development of the Nam Bak 1-2 Hydroelectric Power Project (the "Extension Project") within 18 months after the signing date to the Company.

The Concession Agreement transferred from the branch of the Parent Company to the Company is the agreement made with the Government of the Lao People's Democratic Republic on a BOOT basis (Build-Own-Operate and Transfer) to design, develop, construct and operate the Nam Ngum 2 Hydroelectric Power Project for a period of 25 years commencing from the Commercial Operation Date and to transfer the Nam Ngum 2 Hydroelectric Power Project to the Government of the Lao People's Democratic Republic at the end of the concession period. However, the Company has the right to extend the contract period under the terms and conditions as may then be agreed by the parties. The agreement allows the Company to sell electricity to EGAT.

Under the Concession Agreement, the Company has commitment to pay royalties and taxes to the Government of the Lao People's Democratic Republic for a certain period and at rates as specified under the Concession Agreement.

On 9 October 2008, the Company entered into the Addendum to the Memorandum of Understanding with the Government of the Lao People's Democratic Republic for the extension of the exclusive rights to carry out the feasibility study and the development of the Nam Bak 1-2 Hydroelectric Power Project for a further period of one year after the expiration date, as approved by the Meeting of the Company's Executive Board No. 3/2008. The Government of the Lao People's Democratic Republic extended the exclusive rights under such Memorandum of Understanding until 30 June 2010, and currently the Government of the Lao People's Democratic Republic is in the process of an extension of the Memorandum of Understanding for a further period.

- d) On 9 January 2008, the branch of the Parent of the Company entered into a novation agreement with the Company and the related company to transfer all rights and obligations under the Engineering, Procurement and Construction Contract ("EPC Contract") for the construction of the Nam Ngum 2 Hydroelectric Power Project on a Lump Sum Fixed Price Turnkey Basis to the Company.
- e) On 25 June 2009, the Company entered into an Agreement on Operation and Maintenance of Dam and Powerhouse for Nam Ngum 2 Hydroelectric Power Project with a related company at the rates specified in the agreement. The period of this agreement is valid until the end of the concession period of the Nam Ngum 2 Hydroelectric Power Project.
- f) On 15 January 2010, the Company entered into an Agreement on Operation and Maintenance of Transmission Systems for Nam Ngum 2 Hydroelectric Power Project with Electricité du Laos at the rates specified in the agreement. The period of this agreement is valid until the end of the concession period of the Nam Ngum 2 Hydroelectric Power Project.

2.1 Basis for preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Thai Baht ("Baht").

2.2 Summary of significant accounting policies

(a) Foreign currency translation

The financial statements are presented in Baht, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into Baht at the rates ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies outstanding on the reporting date are retranslated into Baht at the rates ruling on the reporting date. All differences are taken to profit or loss in statement of comprehensive income. The exchange differences relevant to the construction of the hydroelectric power project are included as part of project costs during the construction phase. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(b) Revenues and expenses recognition

Revenue from sales of electricity

Revenue from sales of electricity is recognised when the significant risks and rewards pass to the buyer.

Interest income

Revenue is recognised as interest accrues (using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other revenues and expenses

Other revenues and expenses are recognised on an accrual basis.

(c) Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(d) Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables or available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit or loss in statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not trade in an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis or other valuation models.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less and without restrictions.

(f) Financial liabilities

All interest-bearing loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss in statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortisation of effective interest is included in finance cost in profit or loss.

(g) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss in statement of comprehensive income.

(i) Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss shall be recognised in profit or loss in statement of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written off against the related impairment allowance. Subsequent recoveries of amounts previously written off are credited directly to the credit loss expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss in statement of comprehensive income.

(j) Property, plant and equipment/depreciation

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. These costs include the cost of replacing part of such equipment when that cost is incurred if the recognition criteria are met.

Depreciation of plant and equipment is calculated by reference to their costs on the straight-line basis over the following estimated useful lives:

Nam Ngum 2 Hydroelectric Power Project	27 years
Leased asset improvements	24 years
Furniture and office equipment	5 years
Motor vehicles	5 years

No depreciation is provided on assets under construction.

The carrying values of the plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in statement of comprehensive income in the year the asset is derecognised.

The residual values, useful lives and depreciation methods of the assets are reviewed, and adjusted if appropriate, at each financial year end.

(k) Project costs during construction phase

All expenditures and other related expenses which are incurred during the construction of the hydroelectric power plant to enable it to become operational are capitalised as assets. Such project costs during the construction phase include, inter alia, project construction costs, direct project management costs, consulting fees, borrowing costs and costs of testing whether the asset is functioning properly, after deducting the net proceeds from sales of electricity during the testing and commissioning phase.

No depreciation is provided on project costs during construction phase.

(l) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss in statement of comprehensive income.

Leased assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in profit or loss in statement of comprehensive income on the straight-line basis over the lease term.

The Company as a lessor

Leases under which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Company considers that the arrangement under the Power Purchase Agreement ("PPA") with EGAT contains a lease. Since the Company retains the principal risks and rewards from its ownership in the power plant, the arrangement is considered to be an operating lease.

As an asset acquired under an operating lease, the power plant is capitalized as plant and equipment and depreciated over its useful life.

There is no future minimum payment by EGAT under the terms of the PPA, it is deemed appropriate to recognize revenue on the basis of actual electricity sales, referring to the number of units sold and the applicable tariff rates.

(m) Borrowing costs

Borrowing costs directly attributable to the construction of the hydroelectric power project, which necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

(n) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for public traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit or loss in statement of comprehensive income, and after such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(o) Related party transactions

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, and directors and officers with authority in the planning and direction of the Company's operations.

(p) Employee benefits

Short-term employee benefits

Salaries, annual rewards and related employment welfare are recognised as expenses when incurred.

Post-employment benefits

Defined benefit plans

The Company has obligations in respect of the severance payments it must make to employees upon retirement under labor law. The Company treats these severance payment obligations as a defined benefit plan.

The obligation under the defined benefit plan is determined by the Company based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from post-employment benefits are recognised immediately in other comprehensive income.

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2011:

IAS 24 Amendment - Amendment to Related Party Disclosures - Revised definition of related parties

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, changes in these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Significant judgements and estimates, including the key assumptions concerning the future and other key sources of estimation, are as follows:

Concession Agreement

The Company's management considers the arrangement under the Concession Agreement with the Government of the Lao People's Democratic Republic to be outside the scope of IFRIC 12, and recorded all expenditures and other related expenses incurred during the construction of the hydroelectric power plant as property, plant and equipment under the caption "Project costs during construction phase" in the statement of financial position.

Power Purchase Agreement

The Company's management considers the arrangement under the Power Purchase Agreement with EGAT to constitute a lease under IFRIC 4. Further details are contained in note 2.2 (l).

Functional Currency

The Company's management considers the Company's functional currency to be the Baht, since this is the currency that will mainly influence the selling price of electricity, and the costs of the Company's sales. It is also the currency in which, in comparison with the US dollar, funds from financing activities are more likely to be generated, and in which receipts from operating activities are more likely to be retained.

Deferred income tax assets

Deferred income tax assets are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which those temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

- IFRS 9 *Financial Instruments: Classification and Measurement* (effective 1 January 2015)
- IAS 12 *Income Taxes - Limited scope amendment (recovery of underlying assets)* (effective 1 January 2012)
- IAS 1 *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)
- IAS 19 *Amendment - Amendment to Employee Benefits* (effective 1 January 2013)
- IAS 27 *Separate Financial Statements (as revised in 2011)* (effective 1 January 2013)
- IAS 28 *Investments in Associates and Joint Ventures (as revised in 2011)* (effective 1 January 2013)
- IFRS 7 *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* (effective 1 July 2011)
- IFRS 10 *Consolidated Financial Statements* (effective 1 January 2013)
- IFRS 11 *Joint Arrangements* (effective 1 January 2013)
- IFRS 12 *Disclosure of Involvement with Other Entities* (effective 1 January 2013)
- IFRS 13 *Fair Value Measurement* (effective 1 January 2013)

The Company expects that the adoption of the standards will have no significant impact on the Company's financial statements in the period of initial application.

5. Expenses by nature

Significant expenses by nature are as follows:

	(Unit: Thousand Baht)	
	<u>2011</u>	<u>2010</u>
Operation and maintenance of power plant and transmission systems	147,647	-
Watershed and livelihood expenses	80,137	-
Royalty	129,696	-
Depreciation	834,204	5,080
Salary and other employee benefits	30,650	9,863
Traveling expenses	5,373	4,344
Rental expenses	2,741	2,380
Consultant expenses	6,833	450
Directors' remuneration	16,020	5,220
Management fee charged by the Parent Company	63,066	27,287
Loss on exchange	209,955	91

6. Income tax

Corporate income tax of the Company will be calculated by multiplying net income by the tax rate as specified in the Concession Agreement for each period commencing from the Initial Operation Date to the end of the concession period. However, for a period of 5 years from the Initial Operation Date, the Company has been granted exemption from the corporate income tax. Therefore, no corporate income tax was payable for the current year.

7. Earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares in issue during the year.

The following reflects the profit (loss) and share data used in the basic earnings (loss) per share computation:

	<u>2011</u>	<u>2010</u>
Profit (loss) (Baht)	1,262,795,707	(87,433,764)
Weighted average number of ordinary shares for basic earnings (loss) per share (shares)	878,874,593	811,281,333

8. Property, plant and equipment

(Unit: Thousand Baht)

	Nam Ngum 2 Hydroelectric Power Project	Leased asset improvements	Furniture and office equipment	Motor vehicles	Assets under construction	Total
Cost						
1 January 2010	-	-	1,840	9,667	15,800	27,307
Additions	-	1,651	20,814	18,534	-	40,999
Write off	-	-	(368)	-	-	(368)
Transfer in (out)	-	15,800	-	-	(15,800)	-
31 December 2010	-	17,451	22,286	28,201	-	67,938
Additions	352,349	-	7,379	7,656	-	367,384
Transfer in (out)	29,052,504	-	(1,924)	4,887	-	29,055,467
31 December 2011	29,404,853	17,451	27,741	40,744	-	29,490,789
Accumulated depreciation						
1 January 2010	-	-	329	537	-	866
Depreciation for the year	-	538	1,821	2,721	-	5,080
Depreciation on write off	-	-	(277)	-	-	(277)
31 December 2010	-	538	1,873	3,258	-	5,669
Depreciation for the year	823,176	735	4,957	5,336	-	834,204
31 December 2011	823,176	1,273	6,830	8,594	-	839,873
Net book value						
31 December 2010	-	16,913	20,413	24,943	-	62,269
31 December 2011	28,581,677	16,178	20,911	32,150	-	28,650,916

On 26 March 2011, construction of the Nam Ngum 2 Hydroelectric Power Project was completed and the Company commenced with the Initial Operation Date as specified in the Power Purchase Agreement with EGAT. At the same time, the Company recorded the transfer of all project costs incurred during the construction phase of the Nam Ngum 2 Hydroelectric Power Project to the caption of "Property, plant and equipment" in the statement of financial position, as discussed in note 9.

The Company has mortgaged immovable assets and pledged other movable assets of the Nam Ngum 2 Hydroelectric Power Project with a group of lenders to secure the long-term loans.

9. Project costs during construction phase

On 26 March 2011, construction of the Nam Ngum 2 Hydroelectric Power Project was completed and the Company has commenced the Initial Operation Date as specified in the Power Purchase Agreement with EGAT. The Company therefore transferred all project costs of the Nam Ngum 2 Hydroelectric Power Project incurred during the construction phase amounting to approximately Baht 29,051 million to be recorded under the caption of "Property, plant and equipment" in the statement of financial position as discussed in note 8.

As at 31 December 2011, the balance of project costs during construction phase represented the project costs of the Extension Project.

During 2011, the amount of borrowing costs capitalised for the Nam Ngum 2 Hydroelectric Power Project and the Extension Project was approximately Baht 319 million (2010: Baht 1,187 million), whereas the rates of interest were MLR+1 and LIBOR+3 per annum.

10. Other current assets

	(Unit: Thousand Baht)	
	<u>2011</u>	<u>2010</u>
Inventories	5,936	-
Prepaid expenses	13,470	674
Others	385	229
Total	<u>19,791</u>	<u>903</u>

11. Cash at bank and on hand

	(Unit: Thousand Baht)	
	<u>2011</u>	<u>2010</u>
Cash	401	201
Bank deposits	<u>1,584,585</u>	<u>214,362</u>
	<u>1,584,986</u>	<u>214,563</u>

As at 31 December 2011 and 2010, cash and cash equivalents comprised cash at banks and on hand only. The Company has pledged and assigned rights of claim in bank accounts with outstanding balances as at 31 December 2011 totaling approximately Baht 1,585 million (2010: Baht 214 million) to secure the long-term loans of the Company with its lenders, in accordance with conditions stipulated in the long-term loan agreements. However, the Company is able to withdraw from these deposits for payments of its regular operating expenses.

12. Issued capital

	(Unit: Thousand Baht)	
	<u>2011</u>	<u>2010</u>
Authorised:		
880,900,000 ordinary shares of Baht 10 each	<u>8,809,000</u>	<u>8,809,000</u>
Issued and paid up:		
880,900,000 ordinary shares of Baht 10 each, fully paid		
(2010: 38,430,000 ordinary shares of Baht 10 each, fully paid and		
842,470,000 ordinary shares of Baht 10 each, 97.11 percent called up)	<u>8,809,000</u>	<u>8,565,866</u>

During 2010, the Company received share payments from its shareholders amounting to Baht 960.4 million, as the Company called additional share payments of 11.4 percent of the par value of each share totaling 842.47 million shares.

During 2011, the Company received share payments from its shareholders amounting to Baht 243.1 million, as the Company called additional share payments of 2.9 percent of the par value of each share totaling 842.47 million shares.

13. Statutory reserve

Pursuant to Section 151 of the Law on Enterprises of Lao People's Democratic Republic, the Company is required to annually appropriate 10 percent of its net income, after deducting accumulated deficit brought forward (if any), to a statutory reserve, until the statutory reserve reaches half of the registered capital, unless otherwise specified in the Articles of Association of the Company. The statutory reserve is not available for dividend distribution.

14. Long-term loans from financial institutions

	(Unit: Thousand Baht)	
	<u>2011</u>	<u>2010</u>
Long-term loans	20,732,742	19,868,038
Less: Current portion of long-term loans	<u>(829,310)</u>	<u>-</u>
Long-term loans, net of current portion	<u>19,903,432</u>	<u>19,868,038</u>

On 26 May 2006, the Company and the branch of the Parent Company jointly entered into long-term loan agreements with a consortium of three commercial banks in Thailand to obtain loan facilities of Baht 15,003 million and USD 180 million for the use in the payment of project costs. The Baht loan facilities carry interest at MLR plus 1 per annum for the period prior to the Initial Operation Date, and thereafter at MLR plus 0.50 per annum. The foreign currency loans carry interest at LIBOR plus 3 per annum for the period prior to the Initial Operation Date, and thereafter at LIBOR plus 2.5 per annum. The loans are repayable in 22 installments, semi-annually at the amounts stipulated in the long-term loan agreements. The first repayment date is the earlier of (a) the 12th calendar month after the month in which the Initial Operation Date falls and (b) the calendar month falling 72 months after the date of the long-term loan agreement.

As at 31 December 2011, all long-term credit facilities of the Company had been drawn down.

Under the long-term loan agreements, the Company and the branch of the Parent Company are to conform to covenants imposed by the lenders in respect of, among other things, the increase in share capital, the transfer of rights and obligations under the Nam Ngum 2 Hydroelectric Power Project from the Parent Company to the Company, and the maintenance of a certain debt to equity ratio.

The Company secured the long-term loans by the mortgage of its immovable properties, the pledge of movable properties located in the Lao People's Democratic Republic, pledges of its own shares and the Parent Company's shares, pledges and assignments of rights of claim in bank accounts, the assignment of beneficiary rights under insurance policies, and the assignment of rights and obligations under the agreements relevant to the Nam Ngum 2 Hydroelectric Power Project.

15. Provision for long-term employee benefits

Provision for long-term employee benefits as at 31 December 2011, which is compensations on employees' retirement, was as follows:

(Unit: Thousand Baht)

Defined benefit obligation at beginning of year	-
Current service cost and interest cost	410
Provisions for long-term employee benefits at end of year	<u>410</u>

Long-term employee benefit expenses included in the profit or loss for the year ended 31 December 2011 amounted to Baht 0.4 million.

Principal actuarial assumptions at the valuation date were as follows:

Discount rate (% per annum)	4.17%
Future average salary increase rate (% per annum)	7.0%

16. Other long-term liabilities - related party/Revenue from sales - gain from calculation of present value of long-term liabilities

The balance of other long-term liabilities is excess cash which the Company received from sales of electricity as excess energy in the Nam Ngum 2 Hydroelectric Power Project to EGAT and has the obligations to repay to EGAT in 2022, in accordance with a condition in the Power Purchase Agreement. The Company initially records such long-term liabilities at the present value of the amounts to be repaid, calculated using a discount rate tied to the cost of the financing rate of the Company, and records gains (or losses) from calculation of the present value of long-term liabilities in profit or loss. In addition, the carrying amount of the liabilities increases in each period to reflect the passage of time, with the Company recognising this increase as a finance cost.

17. Trade and other payables

(Unit: Thousand Baht)

	<u>2011</u>	<u>2010</u>
Trade payables - related parties	115,645	-
Trade payables - unrelated parties	4,642	-
Project payables - related parties	332	124,762
Project payables - unrelated parties	3,809	3,873
Other payables - related parties	1,880	2,113
Other payables - unrelated parties	2,170	287
Accrued expenses	9,507	1,488
Accrued finance cost	7,551	6,839
Total trade and other payables	<u>145,536</u>	<u>139,362</u>

18. Related party transactions

During the year, the Company had significant business transactions with related parties: related via shareholding, as well as through common shareholders and/or common directors. These transactions were concluded on commercial terms and bases agreed upon in the ordinary course of businesses between the Company and those related parties. Below is a summary of those transactions:

		(Unit: Million Baht)	
	<u>Relationships</u>	<u>2011</u>	<u>2010</u>
<u>Transactions with the Parent Company</u>			
Partial management fee as administrative expenses		44	27
Partial management fee as project cost		12	41
Borrowing costs during construction		20	18
<u>Transactions with related parties</u>			
Revenue from sales of electricity	Major shareholder of a shareholder of the Parent Company	3,802	-
Cost of sales of electricity	A shareholder of the Company, Major shareholder of a shareholder of the Company, Shareholders of the Parent Company, Major shareholder of a shareholder of the Parent Company, Common shareholders of the Parent Company	343	-
Administrative expenses	A shareholder of the Company	1	-
Project construction costs and other costs	A shareholder of the Company, Shareholders of the Parent Company, Major shareholder of a shareholder of the Parent Company, Common shareholders of the Parent Company	867	2,088
Sales of electricity during testing and commissioning phase	Major shareholder of a shareholder of the Parent Company	135	55

The balances of the accounts as at 31 December 2011 and 2010 between the Company and those related parties are as follows:

		(Unit: Thousand Baht)	
		<u>2011</u>	<u>2010</u>
		<u>Relationships</u>	
<u>Trade and other receivables - related parties</u>			
Trade accounts receivable - related party			
- Electricity Generating Authority of Thailand	Major shareholder of a shareholder of the Parent Company	381,608	-
Other receivables - related parties			
a) <u>Advances - related parties</u>			
- CH. Kamchang (Lao) Company Limited	Common shareholder of the Parent Company	-	6,049
- RATCH - LAO Services Company Limited	Common shareholder of the Parent Company	41	-
		<u>41</u>	<u>6,049</u>
b) <u>Amounts due from related parties</u>			
Parent Company		7,200	7,200
Related parties			
- CH. Karnchang (Lao) Company Limited	Common shareholder of the Parent Company	1	-
- Electricity Generating Authority of Thailand	Major shareholder of a shareholder of the Parent Company	-	40,881
		<u>7,201</u>	<u>48,081</u>
Trade and other receivables - related parties		<u>388,850</u>	<u>54,130</u>
<u>Call in arrears - Parent Company</u>			
Parent Company		12,564	12,590
<u>Construction payable - related company</u>			
- CH. Kamchang (Lao) Company Limited	Common shareholder of the Parent Company	-	399,996
<u>Trade and other payables - related parties (Note 17)</u>			
Trade accounts payable - related parties			
- P.T. Construction Company Limited	A shareholder of the Parent Company	33,235	-
- RATCH - LAO Services Company Limited	Common shareholder of the Parent Company	9,583	-
- Electricité du Laos	A shareholder of the Company	1,588	-
- TEAM - LAO Company Limited	Common shareholder of the Parent Company	3,835	-
- The Government of the Lao People's Democratic Republic	Major shareholder of a shareholder of the Company	67,404	-
		<u>115,645</u>	<u>-</u>

		(Unit: Thousand Baht)	
<u>Relationships</u>		<u>2011</u>	<u>2010</u>
Other payables - related parties			
a) <u>Project payable - related parties</u>			
- P.T. Construction Company Limited	A shareholder of the Parent Company	332	103,943
- Team Consulting Engineering and Management Company Limited	A shareholder of the Parent Company	-	247
- RATCH - LAO Services Company Limited	Common shareholder of the Parent Company	-	9,583
- Electricité du Laos	A shareholder of the Company	-	3,053
- TEAM - LAO Company Limited	Common shareholder of the Parent Company	-	1,070
- Electricity Generating Authority of Thailand	Major shareholder of a shareholder of the Parent Company	-	6,866
		<u>332</u>	<u>124,762</u>
b) <u>Amounts due to related parties</u>			
Parent Company		1,880	31
Related party			
- Electricity Generating Authority of Thailand	Major shareholder of a shareholder of the Parent Company	-	2,082
		<u>1,880</u>	<u>2,113</u>
Trade and other payables - related parties		<u>117,857</u>	<u>126,875</u>
<u>Retention payable - related company</u>			
- P.T. Construction Company Limited	A shareholder of the Parent Company	17,527	20,166
<u>Other long-term liabilities - related party</u>			
- Electricity Generating Authority of Thailand	Major shareholder of a shareholder of the Parent Company	74,326	-
<u>Loans from the Parent Company and accrued interest</u>			
Loans		250,000	250,000
Accrued interest		70,993	50,784
		<u>320,993</u>	<u>300,784</u>

On 9 January 2008, the Company issued a letter of acknowledgement of its indebtedness to the Parent Company for loans amounting to Baht 70 million that had been used to fund the feasibility study and the development of the Extension Project, including the interest accrued on these loans.

On 10 March 2008, the Company entered into the Shareholders' Loan Agreement with the Parent Company regarding borrowing facilities of Baht 180 million in order to continue carrying out the feasibility study and the development of the Extension Project. The loan carries interest at MLR plus 1 per annum, maturing within 12 months after the signing date. During 2009 to 2011, the Company entered into agreements to extend the term of the shareholders' loan repayment. According to the latest agreement made on 15 September 2011, the Company and the Parent Company agreed to amend the term of the shareholders' loan, whereby the date of principal and interest repayment is extended to the earlier of (a) 54 months after 10 March 2008 (due on 10 September 2012) and (b) the date on which the Parent Company calls for settlement because the Parent Company is required to pay such debts to the Parent Company's shareholders.

Directors and management's benefits

During the year ended 31 December 2011, the Company had short-term employee benefit expenses of its directors and management amounting to Baht 28.2 million (2010: Baht 14.2 million).

19. Financial instruments

Financial risk management and policies

The Company's principal financial instruments comprise loans from financial institutions and from the Parent Company, other long-term liabilities - related party, construction payables, trade and other payables, trade and other receivables and cash at banks.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The Company will use derivative instruments, as and when it considers appropriate, to manage these risks. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

19.1 Credit risk

Credit risk is the risk that counterparties will not meet their obligations under a financial instrument or customer contract, leading to a financial loss. The credit risk associated with operating activities and financing activities of the Company and how they are managed is described below:

Bank deposits

The Company has no significant credit risk in respect of cash at banks because the Company has deposited cash from sales of electricity, loan drawdown and equity injection in bank accounts in accordance with the Accounts Agreement both in Thailand and the Lao People's Democratic Republic with only creditworthy banks.

As at 31 December 2011, total cash at banks of the Company amounted to Baht 1,585 million.

Trade receivable

The Company has no significant credit risk with respect to trade receivable from sales of electricity. Although the Company has only one customer under the Power Purchase Agreement ("PPA") entered into between the Company and the Electricity Generating Authority of Thailand ("EGAT"), EGAT has a strong financial position as it is a state enterprise in Thailand. In addition, there have been no receivable from sale of electricity that is past due or impaired.

19.2 Liquidity risk

To manage the liquidity risk, the Company management considers and monitors the forecasting of its liquidity reserve with undrawn loans, uncalled share capital, cash from sales of electricity and the balance of cash and cash equivalents on the basis of estimated cash flows, which are maintained for the appropriate cash funding to meet the Company's expenditure under its interim payment schedule and budget, including reasonable short-term operational needs.

Based on the undiscounted amounts contractually payable, as at 31 December 2011 the Company has financial liabilities due within one year amounting to Baht 1,315 million, long-term loans from financial institutions due within 2 to 5 years amounting to Baht 5,287 million, and long-term loans from financial institutions and other long-term liabilities to related parties due in over 5 years amounting to Baht 14,790 million.

19.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's bank deposits and the future long term loans with floating interest rates. The Company will use derivative financial instruments, as and when it considers appropriate, to manage this risk.

Significant financial assets and liabilities as at 31 December 2011 classified by type of interest rates are summarised in the table below, with those financial assets and liabilities that carry fixed interest rates further classified based on the earlier of (a) maturity date and (b) the repricing date.

(Unit: Million Baht)

	Fixed interest rates	Floating interest rate	Non-interest bearing	Total	Interest rate (% p.a.)
Financial assets					
Trade and other receivables	-	-	389	389	-
Cash at banks	-	1,154	431	1,585	0.25 to 0.75
	-	1,154	820	1,974	
Financial liabilities					
Loans from the Parent Company and accrued interest	-	321	-	321	MLR + 1
Long-term loans from financial institutions	-	20,733	-	20,733	MLR + 0.5 and LIBOR + 2.5
Other long-term liabilities - related party	-	-	74	74	-
Trade and other payables	-	-	146	146	-
	-	21,054	220	21,274	

Interest-rate risk sensitivity for the year ended 31 December 2011, if interest rates had been 50 basis points higher/(lower), with all other variables held constant, profit would have decreased/increased by Baht 104 million.

19.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign exchange risk related primarily to its long-term loans from financial institutions, construction payables, trade and other payables and trade and other receivables.

The Company manages its exposure to foreign currency risk by balancing net position of receipt and payment of the foreign currency transactions in each period. The Company will use derivative financial instruments, as and when it considers appropriate, to manage this risk.

The balances of financial assets and liabilities denominated in foreign currencies as at 31 December 2011 are summarised below.

Foreign currency	Financial assets	Financial liabilities	Average exchange rate as at 31 December 2011
	(Million)	(Million)	(Baht per 1 foreign currency unit)
US dollar	36.6	180.7	31.8319
CHF	-	0.1	33.9806

As at 31 December 2011, the Company does not utilise any contracts to hedge foreign exchange rate risk.

The foreign currency sensitivity for the net balance of financial assets and liabilities as at 31 December 2011, if Thai Baht had strengthened/(weakened) 5 percent against of US dollar, with all other variables held constant, profit would have increased/(decreased) by Baht 229 million.

19.5 Fair value

Since the Company's financial assets and construction payables and trade and other payables are short-term in nature, and the majority of the Company's financial liabilities comprise loans from financial institutions and from the Parent Company which bear interest at rates close to market rates, the Company's management believes that the fair values of the Company's financial assets and liabilities are approximate to their carrying values.

19.6 Capital management

Capital includes ordinary shares and equity attributable to the equity holders of the Company.

The primary objective of the Company's capital management is to ensure that it maintains its ability to continue as a going concern and maintains an appropriate capital structure, stipulated in the long-term loan agreements with financial institutions and the branch of the Parent Company.

The Company monitors its capital structure with reference to its long-term loans from financial institutions to its paid up share capital ratio, which is long-term loans from financial institutions divided by paid up share capital. The Company intends to maintain this ratio at less than 2.5 times.

As at 31 December 2011, the long-term loans from financial institutions to paid up share capital ratio in the Company's financial statements is 2.35:1 (2010: 2.32:1).

20. Commitments and contingencies

20.1 Capital commitments

As at 31 December 2011, the Company had capital commitments in respect of the following agreements.

- a) Consultancy and services agreements for the Extension Project, amounting to approximately Baht 8.2 million.
- b) Administration and coordination contracts for the Extension Project with a related company, amounting to approximately Baht 0.25 million per month.

20.2 Operating lease and other commitments

As at 31 December 2011, the Company had commitments in respect of the following operating lease, as well as other agreements and commitments:

- a) The Company has entered into an agreement leasing the location of its office in the Lao People's Democratic Republic. The term of the agreement is 25 years.

As at 31 December 2011, future minimum lease payments required under this operating lease contract were as follows.

	<u>Thousand USD</u>
Payable within:	
1 year	48 (equivalent to Baht 2 million)
2 - 5 years	202 (equivalent to Baht 7 million)
More than 5 years	1,046 (equivalent to Baht 33 million)

- b) The Company had a commitment amounting to Baht 3.21 million per month in respect of a management service agreement with the Parent Company.
- c) The Company had a commitment totaling Baht 0.7 million in respect of service agreements for the production and supervision of the Nam Ngum 2 Hydroelectric Power Project Documentary.
- d) The Company has commitments totaling CHF 0.4 million, Baht 267.9 million and Baht 0.2 million per month in respect of consultancy and other service agreements for the Nam Ngum 2 Hydroelectric Power Project.
- e) The Company has commitments in respect of the Agreement on Operation and Maintenance of Dam and Powerhouse for Nam Ngum 2 Hydroelectric Power Project with a related company, amounting to approximately Baht 9.58 million per month for the period from November 2010 to the end of the concession period of the Nam Ngum 2 Hydroelectric Power Project, with the service fee to increase from 2012 on an annual basis at the rate specified in the agreement.

- f) The Company has commitments in respect of the Agreement on Operation and Maintenance of Transmission Systems for Nam Ngum 2 Hydroelectric Power Project with Electricité du Laos, amounting to approximately USD 0.05 million per month for the period from June 2010 to the end of the concession period of the Nam Ngum 2 Hydroelectric Power Project, with the service fee to increase from 2012 on an annual basis at the rate specified in the agreement.
- g) The Company has a commitment amounting to approximately Baht 25 million per year in respect of the Service Agreement with a related company for consultancy services relating to operation and maintenance of the Nam Ngum 2 Hydroelectric Power Plant.
- h) The Company has a commitment to pay a royalty to the Government of the Lao People's Democratic Republic commencing from the Initial Operation Date to the end of the concession period, which will be calculated by multiplying revenue from sales of electricity by the royalty rate for each period as specified under Concession Agreement.

20.3 Bank guarantees

As at 31 December 2011, there were outstanding bank guarantees of USD 22.5 million (equivalent to Baht 716 million) issued by banks on behalf of the Company in respect of the guarantee required under the Power Purchase Agreement with the Electricity Generating Authority of Thailand.