

RISK MANAGEMENT AND RISK FACTORS

MEA board of directors, MEA governor, top management and MEA employees, having committed themselves to fulfill MEA's missions to deliver the best services, to get the best customer satisfaction and to maintain sustainable business growth, are all aware of the crucial importance of the risk management and the associated effective control over it. This has become part of the working behavior and hence the organization culture.

The risk management has been put in practice and developed in MEA since 2001. Now there are organizational level-Enterprise Wide Risk Management Plan and operational level-Activity Risk Management Plan integrated into the regular work plan across MEA. In this regard, MEA follows nationwide accepted standard framework in order to identify and assess potential risks, analyze their impacts and probabilities, and provide effective responses that minimize the impacts to be acceptable to MEA.

Potential risks that have been identified in MEA's business are as follows:

1. Strategic Risks

1.1 Reform of Business Rule, Legal and Regulatory System

The new Electricity Supply Business Act, which sets the government's policy in the reformation of the electricity supply business, is now under the legislation process. The Act, when it comes into effect, will promote market completion and protect consumer's interest; thus, it affects MEA in its operation and future related business. MEA has set up the Follow-Up Committee to find out what would be the impact of the law and alleviate them.

1.2 Loss of Big Customers which Contribute to Huge Amount of Revenue

Due to the advancing embedded generation technology (Distribution Generator), and the high efficient combined generation which produces electricity, steam and/or chilled water (CHP), MEA's big customers are likely to employ the DG as their alternative way of obtaining electric power. With respect to the awareness of this impact, MEA has set up a plan to maintain good relationship as well as customer satisfaction with these customers via delivering them reliable, qualified and on-time services at reasonable prices. In the same time, MEA has invested in the DG and DG system maintenance business with some strategic partners in order to cope with the future demanding of DG.

2. Operational Risks

2.1 Distribution System Risk - Failure in the Bangkapi-Chidlom Transmission Line

The Bangkapi-Chidlom transmission line powers the Chidlom Terminal Substation which further distributes power to the busy business complexes right in the center of Bangkok, the power demand of which is extremely high. Due to the disturbance of the direct burial cables by the surround environment and its own aging, the Bangkapi-Chidlom transmission line is now no more in its normal, healthy service condition. Should the line suddenly fail; there will be a vast area of power outage affected. MEA then calls for special maintenance of the cables; moreover, it sets up The New Bangkapi-Chidlom Transmission Line Construction Plan to replace the old line with the new one and Contingency Plan to cope with the outage consequences.

2.2 MEA's Work Processes Are Not Yet Businesslike

Due to the government's corporatization/ privatization policy and the increasing competitiveness in the electricity supply business; MEA, the state enterprise, has been driven to be ready to transform its business processes to be businesslike with the aim of being more accurate, swift, customers satisfying and transparent. MEA has thus reorganized its structure to be ready for such requirements and put the Key Performance Indicator (KPI) evaluation system into practice in its main activities: Financial, Customer services, Operations and Learning & Development.

2.3 MEA's Personnel Do Not Possess Business Attitude

Due to the government's corporatization/ privatization policy and the increasing competitiveness in the electricity supply business, MEA has been driven to be ready in every aspect of its business operations, especially, the personnel which is the key factor to help to achieve what the organization's goal aimed for: not be captive in the regulated market, accurate and fast customer response, customer satisfaction, etc. This has made MEA put the individual Key Performance Indicator (KPI) evaluation system for each employee into practice commencing year 2007.

2.4 Sabotages and Disaster

Due to the recent sabotages committed by the terrorists and natural disasters, MEA has reviewed and put into trial part of the relating Civil Tragedy Prevention Plan, which is the national plan that copes with contingency procedures in response to sabotages and natural disasters to alleviate their impacts and associated resilience.

2.5 Information Technology Inadequacy - IT and Data Communication System Do Not Support Business Operation

Since IT and data communication play a vital role in nowadays' business operation, in view of providing efficient and adequate use of IT and data communication system, and creating value added applications to the organization, MEA has then decided to employ Enterprise Resource Planning (ERP) computer software to support the integration of information and the decision making system for the relevant, accurate yet in time response to all events. In addition to this, being highly aware of the important and essence of its data and information to the complete operation of all the departments, MEA has set up the Disaster Recovery Plan (DRP) to safeguard the computer database and other associated equipment from being damage by all the potential risks.

3. *Financial Risk*

3.1 Fluctuation of Exchange Rate

MEA has coped with the fluctuation of exchange rate by hedging the future payment, prioritizing and dealing with the local loaner first for the investment, refinancing the long term foreign debt, etc.

3.2 The rise of the interest rate

MEA has coped with the upward tend of the interest rate by employing some financial tools in the market to alleviate the impacts of the high interest rate to acceptable level.

3.3 Liquidity

MEA has coped with the insufficient cash flow problem by estimating and managing the required hard cash needed while closely monitoring the real cash spent in daily business operation.

4. *Compliance Risk*

MEA has assigned a department of responsibility to frequently audit and inspect the compliance of the various rules and regulations which are regulated by the certain government units, in order to ensure that all the departments have been in compliance with such and with MEA' own regulations. These kinds of audition and inspection have been carried out to cover the main and supportive activities throughout the organization to minimize risks.