TRIS
TRIS RATING

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Contacts	E-mail Addresses
Yingyong Chiaravutthi, CFA	yingyong@tris.co.th
Sangdao Udomdejwatana	sangdao@tris.co.th
Nalin Tungtumniyom	nalin@tris.co.th
WatanaTiranuchit, CFA	watana@tris.co.th

Thai Union Frozen Products Public Company Limited

Company Rating: A+
Rating Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of "A+" to Thai Union Frozen Products PLC (TUF). The rating reflects the company's strong market position as one of the world's leading tuna processors, solid valuable "Chicken of the Sea" canned tuna brand, and the management team's proven track record in the seafood export business. The rating also takes into consideration the company's conservative business expansion policy, as well as its product and geographic diversity. These factors are partially offset by the maturity of the canned tuna industry in the US, high exposure to tuna price fluctuations, threats from manufacturers in low-cost countries, and the implementation of import trade barriers by major trading countries.

TUF's major product portfolio includes canned tuna, frozen shrimp, and other seafood products, as well as pet food and shrimp feed. Over the last 10 years, TUF has steadily built up its market position in the global tuna industry. The company's business profile has been enhanced after becoming the sole owner of the "Chicken of the Sea" brand in 2001. As a result, revenue in 2001 increased sharply to Bt35,324 million from Bt19,120 million in 2000. In 2005, TUF's canned tuna production capacity was 280,000 tonnes per annum, making it one of the top tuna processors in the world. This enables the company to benefit from economies of scale in raw material procurement and production. In addition, the company's competitive position has been strengthened by its efforts to vertically integrate through the acquisitions of packaging and distribution networks. The company recently entered the shrimp breeding and hatchery businesses, which will also enhance its ability to control and improve shrimp quality. Given the strength of the "Chicken of the Sea" canned tuna brand in the US, TUF plans to use the brand as a platform to introduce new premium tuna and other value-added seafood products. Although the company's historical performance has been quite stable, various uncontrollable factors, including foreign exchange rates, climate change, and trade policies implemented by foreign government, stand as threats to its operating performance.

For the first half of 2006, TUF's total sales were Bt26,906 million, up by 7.2% from the same period last year, driven by strong export growth. However, net profit dropped by 20.1% to Bt776 million, tempered by an increase in fuel costs, the appreciation of Thai baht, and higher interest expenses. Cash flow protection, as measured by the ratio of funds from operations (FFO) as a percentage of total debt, was 35.2% in 2005, up from 31.9% in 2004. The ratio is considered adequate, although it has been relatively volatile over the past few years as outstanding debt increased sharply after major acquisitions and declined afterward when the company utilized internal cash to repay the debt. The ratio of operating income before depreciation and amortization to sales had remained in the range of 6%-9% during 2000-2005, but slightly dropped to 5.4% in the first six months of 2006. The company's total debt to capitalization ratio as of 30 June 2006 was 42.4%, down slightly from 42.7% as of year-end 2005. The ratio is expected to stabilize at the current level, supported by FFO, a reduced dividend payout, and conservative business expansion strategies.

Rating Outlook

The "stable" outlook for TUF reflects TRIS Rating's view that TUF will continue to maintain its competitive strength through economies of scale and production efficiency, expand business operations in a conservative manner, and improve its financial profile in the intermediate term.

Key Rating Considerations

Strengths/Opportunities

- Strong competitive position as one of the world's largest canned tuna processors
- Solid "Chicken of the Sea" brand value
- Geographic and product diversification
- Vertical integration
- Capable management team
- Conservative financial policy

Weaknesses/Threats

- Mature growth in the US canned tuna market
- Exposure to commodity products
- Tuna price fluctuations
- Competition from lower-cost countries
- Tariff and non-tariff trade barriers
- Fluctuation of Thai baht

Corporate Overview

TUF Group is one of the world's largest canned tuna processors. TUF manufactures and exports canned and frozen seafood. Its local subsidiaries are engaged in the pet food, packaging, and printing businesses. Overseas subsidiaries manufacture and distribute canned seafood, and import shrimp and frozen seafood products for sale to restaurant chains, food processors, wholesalers, and retailers.

TUF was incorporated in 1988 by the Chansiri family with registered capital of Bt25 million and was listed on the Stock Exchange of Thailand in 1994. Over the years, the company has enlarged its product portfolio from canned tuna to include a wide variety of seafood and seafood-related products. Distribution channels have also expanded into several countries. In 1997, Thai Union International, Inc. (TUI), an overseas subsidiary of TUF, set up a 50:50 joint venture to acquire Van Camp's assets, which included the "Chicken of the Sea" canned tuna brand, and subsequently purchased the remaining stake in the joint venture in 2001. In 2003, to establish a US distribution arm for its frozen shrimp products, TUF Group, via TUI, acquired Empress International Ltd. (Empress), a US-based importer specializing in frozen shrimp. As of June 2006, TUF's paid-up capital was Bt869 million, with 25.8% held by the Chansiri family.

TUF's business operations are divided into five areas: frozen and canned food products, packaging products, animal feed and agricultural products, food products for the domestic market, and overseas investments.

Frozen and canned food products include frozen tuna loins, canned tuna, canned pet food, frozen shrimp, frozen cephalopod, and canned seafood.

Packaging products include food-containing metal and aluminum cans, and printing services.

Animal feed and agricultural products include shrimp feed and shrimp breeding stock.

Food products for the domestic market include snacks under the "Fisho" "Dori" and "Tri-O Light" brands and canned tuna under the "Sealect" brand.

Overseas investments include canned tuna and other seafood products in the US under the "Chicken of the Sea" and "Xcellent" brands, operated through TUI, and an investment in a seafood distributor in China.

TUF derives a majority of revenue from canned tuna and frozen shrimp, with "Chicken of the Sea" as the company's flagship brand. As of the first six-months of 2006, canned tuna accounted for 49% of total sales and frozen shrimp accounted for 18%. The company's customer base was geographically diverse, with 55% of sales from the US, 11% from the EU, 10% from Japan, 9% from the domestic market, and the remaining 15% from Australia, Asia ex-Japan, the Middle East, Canada, Africa, and South America. About 44% of TUF's production was contract manufacturing, while around 47% was for its own US brands. The remaining 9% of the production was for the company's own Thai brands.

Table 1: Sales Breakdown by Product

	2001	2002	2003	2004	2005	1H/06
Canned tuna	57%	57%	51%	46%	50%	49%
Frozen shrimp	14%	10%	16%	21%	19%	18%
Canned seafood	8%	8%	9%	9%	8%	7%
Canned pet food	10%	9%	8%	8%	7%	9%
Shrimp feed	2%	3%	5%	4%	6%	7%
Domestic products	2%	4%	3%	4%	4%	5%
Frozen tuna loin	4%	4%	5%	5%	3%	2%
Frozen cephalopod	3%	4%	3%	3%	3%	3%

Source: TUF

As of December 2005, TUF's annual production capacities for canned tuna, canned pet food, frozen tuna loins, frozen shrimp, and frozen cephalopod were 280,000, 75,000, 34,000, 18,000 and 7,000 tonnes, respectively.

Table 2: Market Share among Thai Exporters

	2001	2002	2003	2004	2005	1H/06
Canned tuna	40%	40%	40%	40%	40%	40%
Frozen tuna loin	70%	40%	40%	40%	40%	40%
Canned pet food	40%	40%	40%	40%	40%	40%
Frozen shrimp	9%	10%	11%	10%	10%	10%
Frozen cephalopod	9%	10%	10%	10%	10%	10%
Canned seafood	n.a.	3%	3%	2%	2%	2%

Source: TUF

Recent Developments

- ***Shrimp business strengthened through backward and forward integrations***

In 2006, TUF Group established a joint venture with High Health Aquaculture, Inc. (HHA) to form High Health (Thailand) Ltd. HHA will help provide technology and know-how in shrimp breeding and hatchery farming. Phang-Nga province was chosen as a strategic location for the project, which is set to be completed by the end of 2006. In addition, TUF set up a subsidiary company called Tri-Union Frozen Food Products, LLC (COSF). COSF is a seafood importer and marketer, and will focus on value-added seafood products and retail distribution networks in the US.

- ***Enhancing raw material procurement capability***

In May 2006, TUF expanded its tuna manufacturing base overseas by acquiring a 76.5% stake in PT Juifa International Foods Co., Ltd., an Indonesia-based tuna canner and exporter. The transaction should benefit TUF by expanding production capacity, diversifying production into a lower-cost neighboring country, and securing supply of albacore tuna raw materials.

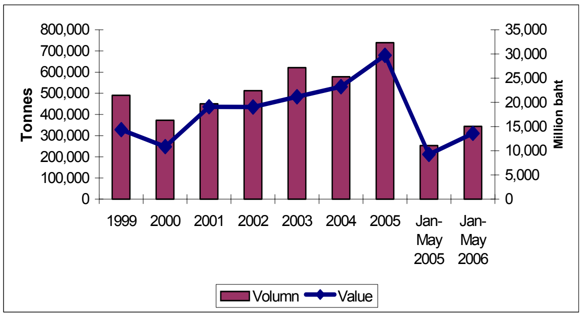
INDUSTRY ANALYSIS

Canned Tuna:

Since the 1980s, canned tuna has been one of Thailand's major exporting food products. Given the competitive advantage of a low-cost country, Thailand is also the world's largest producer of canned tuna**,** followed by the US and Spain.

The Thai canned tuna industry relies on imported frozen raw tuna. The most popular species of imported frozen tuna is skipjack, followed by yellowfin and albacore. Imports of frozen tuna have fluctuated, depending on tuna prices and world supply. In 2005, Thailand imported 739,011 tonnes of frozen tuna, an increase of 27.6% from the previous year. During the first five months of 2006, the import volume rose by 35.6% year-on-year to 344,263 tonnes. Major frozen tuna exporting countries are Taiwan, Vanuatu, South Korea, Maldives, and Japan.

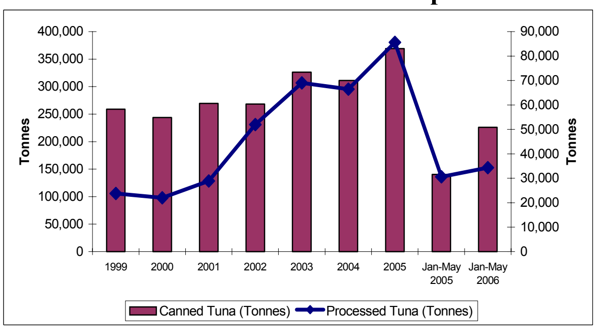
Chart 1: Thailand's Frozen Tuna Imports



Source: The Customs Department of Thailand

Although canned tuna production worldwide had grown at only 2.6% per annum on average during 1999-2003, production in Thailand had impressively grown at 7.8% during the same period. Data from the Office of Industrial Economics shows that total production of canned tuna in Thailand was 411,511 tonnes in 2005; with 89.6% of production exported. In 2005, Thailand's canned tuna exports increased by 18.7% to 369,196 tonnes, in contrast with a slight 4.7% drop in 2004. The US is the biggest importer of Thai canned tuna, followed by Australia, Japan, and Canada. In addition, canned tuna from Thailand also claims the biggest market share of total US canned tuna imports, with a 36.8% share in 2005. During January-May 2006, Thailand exported 225,975 tonnes of canned tuna to the US, 61% more than the same period in 2005. Demand for canned tuna in Africa and the EU has recently increased as tuna has been used as a protein substitute for poultry, which has suffered from the outbreaks of bird flu.

Chart 2: Thailand's Tuna Exports



Source: The Customs Department of Thailand

There are three major canned tuna brands in the US: StarKist, Bumble Bee, and Chicken of the Sea. StarKist's market share has been declining in recent years, while the shares of Bumble Bee and Chicken of the Sea have increased.

Table 3: US Canned Tuna Market Share

	2002	2003	2004	2005	1H/06
StarKist	40.1%	38.9%	39.0%	33.5%	32.2%
Bumble Bee	23.6%	24.4%	24.3%	27.4%	26.7%
Chicken of the Sea	17.9%	17.7%	17.6%	18.3%	18.5%

Source: TUF

Over the years, price competition has driven US canned tuna producers to relocate production plants to countries, such as American Samoa, Thailand, and Ecuador, that have lower wages or that are subject to minimal US tariffs. As a US territory, products from American Samoa are exempt from US import duties. The general US import tariff rates for canned tuna in brine is 6% within the quota and 12.5% outside the quota. Canned tuna in oil carries a high tariff rate of 35%. The yearly import quota of canned tuna is set at 20% of the volume of canned tuna produced during the preceding year in the US, excluding American Samoa. The quota volume is considered immaterial since most canned tuna produced in the US is from American Samoa.

Thai canned tuna producers are less competitive in EU markets due to a high tariff rate of 24% outside the quota, and 12% within the quota. The quota for Thailand is 13,390 tonnes per year. The EU has granted import tariff exemptions for canned tuna from Africa, the Caribbean, and the Pacific Group of States (ACP).

Shrimp:

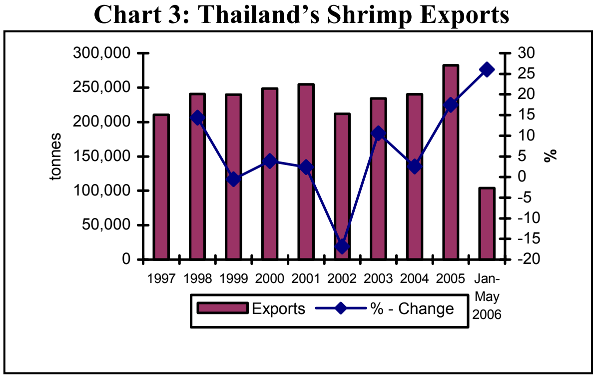
Shrimp products are the top export earner among all Thai fishery products, with more than 90% of shrimp production exported. In recent years, shrimp production has shifted from black tiger shrimp to white shrimp or vannamei shrimp, which have higher survivability.

Major markets for Thai shrimp exports are the US, followed by Japan and the EU. In 2005, Thai shrimp exports rose by 17.5% and the strong growth continued during January-May 2006 with a 26.1% year-on-year increase.

At present, the US imposes anti-dumping duties (AD) on shrimp from six countries, namely Thailand, China, Vietnam, India, Ecuador and Brazil. The AD duty imposed on Thailand was set at 5.95%. This rate is lower than the duties imposed on other countries; therefore, Thailand's competitiveness is substantially strengthened in the US market. After the tsunami in 2004, the US considered revising the AD duties for Thailand and India, but in November 2005, the US announced it would maintain the AD duties due to the rise in shrimp exports to the US and the devastating effect of Hurricane Katrina on US shrimpers. Besides the AD duties, the US Customs Border Protection Agency has implemented the continuous bond (C-bond), or 100% bank guarantee payment, from operators who import shrimp from countries subject to AD duties. In practice, exporters are responsible for posting the C-bond. This measure has tied up exporters' cash flow and has increased their working capital requirements.

In September 2005, the EU announced a temporary measure that reduced the import duty on shrimp from all countries exporting to the EU. The duty on frozen shrimp was reduced from 12% to 4.2% and the duty on processed shrimp was lowered from 20% to 7%. The duty reduction was applied retroactively from 1 August 2005 to 31 December 2005. This duty rate was the same as the announced Generalised System of Preferences (GSP) rate that became effective on 1 January 2006. Thai shrimp exports to the EU are expected to increase as a result of the resumption of GSP privileges.

Chart 3: Thailand's Shrimp Exports



Source: Office of Agricultural Economics

BUSINESS ANALYSIS

TUF's strong business profile reflects the advantage of owning a solid canned tuna brand name and being a low-cost producer through economies of scale. The management team's proven track record in the tuna business and well established distribution arms in developed countries also strongly support competitive position of the company.

- ***One of market leaders in world canned tuna***

During the 1990s, the Thai tuna industry had encountered problems involving shortages of supply, dolphin safety concerns, product label standards, low product quality, and trade barrier issues. Nevertheless, TUF has weathered the highly regulated and volatile environment and emerged as one of the top tuna processors in the world, with an annual canned tuna export volume larger than Ecuador, the second largest canned tuna exporting country after Thailand.

TUF's canned tuna export volumes were 136,210 tonnes, 129,321 tonnes, and 146,722 tonnes in 2003, 2004, and 2005, respectively. In terms of world market share, TUF's canned tuna export volumes account for 12%-15% of world canned tuna exports.

Table 4: World Exports of Canned Tuna

Unit: thousand tonnes

	1999	2000	2001	2002	2003
World	742.4	798.2	776.1	857.8	934.7
Thailand	259.1	244.1	269.7	269.4	326.7
Ecuador	45.6	53.6	65.8	80.3	96.5
Spain	59.5	80.8	90.0	76.3	77.7
Philippines	36.9	44.2	41.5	48.0	65.0
Indonesia	36.3	44.7	35.2	38.3	46.8

Source: FISHDAB - 20050827

- ***Product and geographic diversification creates competitive advantage***

Table 5: Sales Breakdown by Region

	2001	2002	2003	2004	2005	1H/06
USA	58%	55%	58%	60%	57%	55%
Japan	18%	18%	14%	13%	11%	10%
Domestic	4%	7%	8%	8%	9%	9%
EU	7%	8%	8%	7%	9%	11%
Australia	2%	3%	3%	3%	3%	3%
Asia (Ex-Japan)	2%	2%	3%	3%	3%	3%
Middle East	3%	3%	2%	2%	3%	3%
Canada	2%	2%	2%	2%	2%	2%
Africa	3%	1%	1%	1%	2%	3%
South America	1%	1%	1%	1%	1%	1%

Source: TUF

TUF's market risk is mitigated through product and geographic diversification. The company's diverse product portfolio includes canned tuna, frozen shrimp, canned seafood, pet food, and feedmill. In addition, the company's revenue bases are geographically diverse, with the US market as the largest contributor at 55%-60% of total sales during the last five years. The remaining markets are the EU at 11%, Japan at 10%, and the domestic market at 9%. These diversities help reduce earnings volatility and are considered positive rating factors.

- ***Vertical integration in tuna supply chain***

With the exception of tuna catching, TUF has vertically integrated the whole tuna supply chain to include processing, packaging, and distribution. TUF imports raw tuna through agents and trading companies that have contracts with fishing fleets operating in the Pacific and Indian Oceans. The company, thereby, bypasses the volatility in the tuna catching business and reduces the risk of relying on few suppliers. TUF also owns facilities that manufacture metal cans and print labels for its canned tuna, allowing better control of production costs. The established Chicken of the Sea's distribution channel in the US also provides TUF with great benefit, enabling it to stay connected with customers and get up-to-date information on changes in market demand. In addition, fish bones and skins, the by-products of tuna canning, are further processed as ingredients for pet food and shrimp feed. This process allows TUF to fully utilize and extract value from its raw materials, contributing to more solid margins and providing a competitive advantage over other smaller industry players.

- ***Relatively stable gross margins despite tuna price fluctuations***

As a large scale operator and high volume purchaser, TUF has a competitive edge from high bargaining power in procuring tuna raw materials, which account for 60%-70% of total production costs. TUF has also demonstrated the ability to stabilize its gross profit margins from the fluctuations of tuna prices by using a cost-plus pricing policy. The company's gross profit margins were relatively stable during the past few years, ranging between 15%-18%, despite the variability of raw material prices.

- ***New product initiatives and market expansions will continue to drive growth***

Despite the maturity of the packaged food industry in the US, TUF intends to sustain the growth rates of its tuna operation from the development and production of innovative value-added products with higher margins, such as pouch tuna and flavor-added tuna. TUF plans to revitalize the "Chicken of the Sea" brand and use the brand as a platform to launch new frozen and canned seafood products in the US retail market. The company will also try to penetrate new markets, such as Central and Eastern Europe.

- ***High growth potential but more intense competition in shrimp business***

Compared to the tuna business, the shrimp business is more competitive, but with higher growth potential. Per capita annual consumption of shrimp in the US has been rising since 1997 and surpassed per capita consumption of canned tuna in 2001. TUF's competitive edges in the shrimp business are its end-to-end integration of the shrimp supply chain, with the exception of shrimp farming, and the company's premium product quality that meets international standards and regulations. TUF relies upon direct procurement of raw materials from several domestic shrimp farmers to outsource the risk of a disease outbreak. With the acquisition of Empress in 2003 and the expansion into the shrimp feed and hatchery businesses in recent years, TUF is in a stronger position to maintain product quality and ensure product traceability, criteria regarded as the most important by many importing countries.

- ***Premium shrimp quality and distribution network integration***

TUF's additional strength in the shrimp business lies in its distribution capabilities, with Empress as a wholesaler and COSF as a distributor for retail segment. TUF faces competition from both domestic and foreign countries, such as Indonesia, Ecuador, China, and Vietnam, where labor costs are much lower or importing countries impose lower trade barriers. TUF aims to forge long-term contracts in the US and Japan, where there is still growth potential for value-added seafood products, enhance margins of frozen shrimp products through innovative value-added products under the "Chicken of the Sea" brand name, and further penetrate the retail and food service industries. The company intends to steer away from the commoditized nature of its products by emphasizing brand names, quality, and hygiene.

- ***Feed business enhances income, though contribution remains marginal***

The shrimp feed business, operated under Thai Union Feedmill Co., Ltd., has been one of the group's fastest growing segments in recent years, contributing about 6% of total sales as of the first half 2006, up from 3% in 2002. In 2005, shrimp feed sales were Bt2,746 million, up 37% from Bt1,998 million in 2004. The contribution of the shrimp feed business is relatively small. However, given the growing global demand for Thai shrimp, the shrimp feed business should be another revenue driver for the company in the near to intermediate term.

- ***Careful acquisitions build solid competitive position***

Acquisitions and investments have been key factors in TUF's growth and will continue to be the main engine to drive the company's presence in the global seafood industry. Over the years, TUF has had a focused corporate policy and has followed a conservative acquisition strategy. The company has continually created value around its core products through the enlargement of the supply chain and the introduction of value-added products. Most of the TUF's acquisition targets were initially trading partners with which the company had close business relations. The acquisition of the "Chicken of the Sea" brand and assets was initially conducted through a joint venture to reduce risks. TUF will further pursue acquisitions as a means to build market presence in developed markets under its acquired brands and set up distribution channels in new markets. TUF does not intend to extend its product portfolio into unrelated businesses that cannot complement its core products.

- ***Expected benefits from trade liberalization***

As one of the world market leaders in the seafood export business and a low-cost, high-quality producer, TUF should stand to benefit from the trend towards global trade liberalization. Meanwhile, other cheap-labor countries are also expected to be more competitive as trade barriers worldwide gradually subside. TRIS Rating believes TUF will be able to retain its competitive position in the world market, though global competition is expected to be more intense.

FINANCIAL ANALYSIS

TUF has a conservative financial policy with moderate financial leverage. Additional strength is derived from its business diversity, resulting in more stable earnings. These strengths are partially offset by the thin profit margins that are inherent in food processing business. About 90% of the company's revenue is in foreign currency. Foreign exchange exposure is 40%

hedged from expenses in foreign currency, while 30% is hedged through derivative instruments.

- ***Adequate cash flow protection***

TUF's interest coverage ratio has been quite volatile, ranging from 7.5 times in 2001 to 24.5 times in 2003 and back down to 6.1 times in the first half of 2006. The fluctuations are largely influenced by acquisition activities. The ratio of FFO to total debt was adequate at 35.2% in 2005, up from 31.9% in 2004. The company has a history of high dividend payouts, about 70% during the past few years. As a result, free cash flows after dividends have traditionally been negative. Management expects to lower the dividend payout ratio to 50% to preserve some cash for future investments. Internal cash flow generation is more than sufficient for capital expenditures. As of June 2006, TUF has sufficient financial flexibility, with Bt467 million in cash and US$5.3 million available on an existing US$26 million revolving credit facility.

- ***Margins to range from 5%-6% in intermediate term***

TUF's operating margin before depreciation and amortization improved from 6.2% in 2004 to 6.4% in 2005, given a slight drop in tuna raw material prices that was partially offset by higher tariffs and export-related expenses. However, in the first half of 2006, the operating margin before depreciation and amortization decreased to 5.4%, compared with 6.6% during the same period last year. Net profit margins will continue to be pressured from rising interest expenses, energy costs, marketing expenses, and the appreciation of Thai baht, as well as from competition from neighboring countries and the gradual expiration of corporate income tax privileges. In the intermediate term, the margins are expected to improve as the company moves toward more value-added, higher-margin products.

- ***Leverage expected to stabilize in intermediate term***

Since 1997, management has continuously implemented a conservative financial policy. The total debt to capitalization ratio peaked at 62% in 1997, when the company set up a joint venture to take over the assets of Van Camp, and was maintained in the 30%-40% range during the last five years. TUF's total debt rose slightly from Bt9,536 million at the end of 2005 to Bt9,614 million as of 30 June 2006. As of the first half 2006, the total debt to capitalization ratio improved slightly to 42.4%, down from 42.7% at the end of 2005. Leverage is expected to stabilize at these levels in the intermediate term as a result of future business expansion.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-------------- Year ended 31 December --------------				
	6/2006**	2005	2004	2003	2002	2001
Sales	26,906	53,643	46,751	40,343	34,243	35,324
Gross interest	272	361	220	140	158	381
Net income from operations	781	2,058	1,970	2,047	1,942	1,424
Funds from operations (FFO)	1,221	3,354	2,757	3,019	2,216	2,184
Capital expenditures	534	1,030	1,744	848	845	1,240
Total assets	27,180	26,994	23,950	20,687	17,988	18,097
Total debt	9,614	9,536	8,631	6,627	4,398	7,074
Shareholders' equity	11,860	11,695	10,706	9,937	9,451	7,839
Operating income before depre. and amort. as a % of sales	5.36	6.36	6.19	7.88	8.86	6.84
Pretax return on permanent capital (%)	5.50**	13.69	12.95	17.46	18.41	19.38
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	6.10	10.40	14.49	24.53	21.07	7.52
FFO/total debt (%)	12.70**	35.17	31.94	45.56	50.39	30.87
Total debt/capitalization (%)	42.36	42.66	42.18	37.81	29.92	45.00

* Consolidated financial statements

** Based on six-month performance ending 6/2006 (non-annualized)

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a *"Rating Outlook"* that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. The rating outlook will be announced in conjunction with the credit rating. In all cases, the outlook assigned to a company will apply to all debt obligations issued by the company. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.

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