

Management's Discussion and Analysis (MD&A) and operating results for the three-month and nine-month period ended September 30, 2007 compared with the same period of the year 2006

1. PTT and its subsidiaries' performance

Thailand's overall economy in the third quarter of 2007 (Q3/2007) improved from the preceding quarter. Improvement in domestic demand has been more notable and exports continued to expand well. This was in line with the development in the supply side where manufacturing production accelerated from the previous quarter. Tourism also picked up while Private Consumption Index improved by 0.6% from the same period of last year (Q3/2006). Most indicators adjusted upward, particularly the passenger car sales which returned to positive growth in this quarter. Oil consumption in Q3/2007 slightly increased when compared to Q3/2006 due to the energy-saving measures and the higher retail oil price in relation to the global market. As a result, PTT and its subsidiaries' revenue in Q3/2007 was Baht 395,701 million, increased from Q3/2006 by Baht 45,900 million or 13.1% which mainly resulted from the increase in sales of oil, natural gas and petrochemical businesses. Earning before interest, tax, depreciation and amortization (EBITDA) was Baht 42,296 million, increased from Q3/2006 by Baht 5,108 million or 13.7%, due to the natural gas business, petroleum exploration and production business and Petrochemical business. PTT and its subsidiaries' share of net income from investments under the equity method in Q3/2007 was Baht 5,713 million, decreased from Q3/2006 by Baht 1,143 million or 16.7% as a result of the lower performance of petrochemical associates in Q3/2007 from lower of product to feed margin. PTT and its subsidiaries' net profit in Q3/2007 was Baht 24,484 million, increased by Baht 164 million or 0.7%.

For the nine-month performance of the year 2007 (9M/2007), PTT and its subsidiaries' revenue was Baht 1,062,018 million, increased by Baht 128,595 million or 13.8% when compared to the same period of last year (9M/2006) which resulted from oil business, natural gas business and Petrochemical business. EBITDA was Baht 112,318 million, decreased by Baht 216 million or 0.2%. Share of net income from investments under the equity method in 9M/2007 was Baht 22,142 million, increased by Baht 4,371 million or 24.6% from 9M/2006 as a result of the better performance of petrochemical associates from higher product to feed margin in 9M/2007 and the recognition of the investment in IRPC under the equity method in 2007 for 9 months when compared to 6 months recognition in 2006 starting from the second quarter. In addition, refining associates also have better performance from the higher gross refinery margin (GRM) when compared to 9M/2006. PTT and its subsidiaries' net profit in 9M/2007 was Baht 73,346 million, decreased by Baht 6,355 million or 8.0% from 9M/2006 due mainly to the gain from RRC shares dilution in Q2/2006 and 9M/2006 in an amount of Baht 7,130 million when compared to gain on disposal of investment in 9M/2007 of only Baht 676 million, while gain on foreign exchange also decreased by Baht 4,263 million or 52.8% from Baht 8,071 million in 9/2006 to Baht 3,807 million in 9M/2007.

PTT and its subsidiaries' financial performance comparison between Q3/2007 and Q3/2006 and between 9M/2007 and 9M/2006 are as follows

Unit: Million Baht

	Q3/2007	Q3/2006	Increase/(Decrease)		9M/2007	9M/2006	Increase/(Decrease)	
Sales	395,701	349,801	45,900	13.1%	1,062,018	933,423	128,595	13.8%
: Oil ^{1/}	319,782	281,895	37,887	13.4%	849,248	784,751	64,497	8.2%
: Gas ^{2/}	69,724	64,057	5,667	8.8%	197,899	181,702	16,197	8.9%
: PTTEP	21,270	19,959	1,311	6.6%	58,632	58,105	526	0.9%
: Refinery ^{3/}	-	-	-	-	-	76,389	(76,389)	(100.0%)
: Petrochemical ^{4/}	23,030	19,159	3,871	20.2%	56,195	55,006	1,188	2.2%
: Others ^{5/}	-	-	-	-	-	-	-	-
: Elimination	(38,106)	(35,269)	(2,836)	(8.0%)	(99,955)	(222,532)	122,577	55.1%
EBITDA	42,296	37,188	5,108	13.8%	112,318	112,533	(216)	(0.2%)
: Oil ^{1/}	2,069	2,313	(244)	(10.5%)	7,404	5,586	1,819	32.6%
: Gas ^{2/}	16,175	12,080	4,095	34.0%	41,307	34,522	6,785	19.7%
: PTTEP	17,294	16,413	881	5.4%	48,965	48,851	114	0.2%
: Refinery ^{3/}	-	-	-	-	-	6,469	(6,469)	(100.0%)
: Petrochemical ^{4/}	7,400	6,753	647	9.6%	16,346	18,299	(1,953)	(10.7%)
: Others ^{5/}	(629)	(365)	(263)	(72.1%)	(1,651)	(674)	(977)	(145.1%)
: Elimination	(13)	(5)	(8)	(152.5%)	(54)	(520)	466	89.6%
EBIT	34,745	29,843	4,902	16.4%	91,574	91,988	(414)	(0.4%)
: Oil ^{1/}	1,301	1,810	(509)	(28.1%)	5,611	4,059	1,552	38.2%
: Gas ^{2/}	14,744	10,597	4,147	39.2%	37,635	30,374	7,262	23.9%
: PTTEP	13,200	12,097	1,103	9.1%	37,340	37,277	63	0.2%
: Refinery ^{3/}	-	-	-	-	-	5,728	(5,728)	(100.0%)
: Petrochemical ^{4/}	6,532	6,015	517	8.6%	13,858	16,251	(2,392)	(14.7%)
: Others ^{5/}	(667)	(379)	(288)	(76.1%)	(1,764)	(708)	(1,057)	(149.3%)
: Elimination	(364)	(297)	(67)	(22.6%)	(1,107)	(993)	(114)	(11.5%)
Net income	24,484	24,320	164	0.7%	73,346	79,701	(6,355)	(8.0%)
EPS (Baht/share)	8.72	8.69	0.03	0.4%	26.14	28.48	(2.34)	(8.2%)

Note : 1/ Included the consolidation of Oil Marketing Segment, Oil Trading Segment, PTT International Trading Pte., Ltd. (PTTT), PTT (Cambodia) Co., Ltd. (PTTCL), Retail Business Alliance Co., Ltd.(RBA) and Subic Bay Energy Co., Ltd. (SBECL). PTT Retail Business Co., Ltd (PTTRB) is consolidated since Q2/2007.

2/ Included the proportionate consolidation of Trans Thai-Malaysia (Thailand) Co., Ltd.(TTM (T)), Trans Thai-Malaysia (Malaysia) Co., Ltd. (TTM (M) and District Cooling System and Power Plant Co., Ltd. (DCAP) and consolidation of PTT Natural Gas Distribution Co., Ltd. (PTT NGD), PTT LNG Co., Ltd (PTT LNG) and PTT Utility Co., Ltd. (PTTUT). Moreover Combined Heat and Power Producing Company Limited (CHPP) is consolidated since Q3/2007.

3/ Included the consolidation of Rayong Refinery Public Co., Ltd. (RRC)

4/ Included the proportionate consolidation of PTT Asahi Chemicals Co., Ltd. (PTTAC) and HMC Polymers Co., Ltd. (HMC) since Q3/2006 and consolidation of PTT Polymer Marketing Co., Ltd. (PTTPM), PTT Chemical Public Co., Ltd. (PTTCH) and PTT Phenol Co., Ltd. (PPCL). PTT Polymer Logistics Co., Ltd. (PTTPL) has been consolidated since Q3/2006 while Bangkok Polyethylene Public CO., Ltd (BPE) and PTT Polyethylene Co., Ltd. (PTTPE) were consolidated in Q3/2006 and 9M/2006

5/ Included the consolidation of Energy Complex Co., Ltd. (EnCo) while PTT ICT Solutions Co., Ltd. (PTTICT) is consolidated since Q3/2006

□ Oil Business Unit

Sales revenue in Q3/2007 increased by Baht 37,887 million or 13.4% due mainly to the increase in sales volume by 3,016 million liters or 21.0% from 14,373 million liters or equivalent to 982,667 barrels per day in Q3/2006 to 17,389 million liters or equivalent to 1,188,867 barrels per day in Q3/2007, mainly from the increase in sales volume of crude oil, refined products, petrochemical products and naphtha of the trading segment while there was slightly decrease in sales of condensate of trading segment.

EBITDA in Q3/2007 decreased by Baht 244 million, or 10.5% from the same period of last year due to the decrease in average gross margin per unit and the increase in selling and administrative (SG&A) expenses. The decrease in gross margin of trading segment is partly resulted from the Thai Baht appreciation.

EBIT in Q3/2007 decreased by Baht 509 million, or 28.1% due mainly to the increase in depreciation and amortization.

For the 9M/2007 performance, sales revenue increased by Baht 64,497 million or 8.2% due to the increase in sales volume by 7,882 million liters or 19.3% from 40,753 million liters or equivalent to 938,952 barrels per day in 9M/2006 to 48,635 million liters or equivalent to 1,120,554 barrels per day in 9M/2007, mainly from the increase in sales volume of crude oil, refined products, petrochemical products, condensate and naphtha of trading segment. On the other hand, sales volume in marketing segment decreased, mostly from the decrease in gasoline, diesel and fuel oil despite the increase in gasohol and aviation sales volume.

EBITDA in 9M/2007 increased by Baht 1,819 million or 32.6% from the same period of last year due mainly to the increase in sales volume of trading segment and the decrease in SG&A expenses.

EBIT in 9M/2007 increased by Baht 1,552 million or 38.2% due to the EBITDA increased as mentioned despite the increase in depreciation and amortization by Baht 266 million.

Gas Business Unit

Revenue from gas business in Q3/2007 increased by Baht 5,667 million or 8.8% from Q3/2006 due to the following reasons:

- The average natural gas sales volume (included natural gasoline derived from Dew Point Control Units) increased by 180 million cubic feet per day (mmscfd) or 5.7% from 3,138 mmscfd in Q3/2006 to 3,318 mmscfd in Q3/2007 (calculated at heat value 1,000 BTU per cubic feet) which resulted from the increase in gas demand from all group of customers as well as the construction completion of the 1st phase of the third natural gas pipeline, Wangnoi-Kangkoi gas pipeline and Sainoi-South Bangkok gas pipeline system since early 2007.

- The gas separation plants' products sales volume, consisting of liquefied petroleum gas (LPG), ethane, propane and natural gasoline (NGL), increased by 14.6% from 918,708 tons in Q3/2006 to 1,052,962 tons in Q3/2007 (excluded LPG purchased from petrochemical producers for resale in an amount of approximately 61,573 tons in Q3/2006 and 61,916 tons in Q3/2007). However, sales volume of Propane to customers in Q3/2007

decreased due to more GSP's usage of propane to produce LPG to serve the higher demand of LPG. The utilization rate of GSPs increased from 92.02% in Q3/2006 to 103.06% in Q3/2007.

The details of all products sales from gas separation plants are as follows:

Unit : Tons	Q3/2007	Q3/2006	Difference		9M/2007	9M/2006	Difference	
			Tons	%			Tons	%
LPG	600,702	486,012	114,690	23.6	1,610,411	1,463,542	146,869	10.0
Ethane	262,333	251,098	11,235	4.5	646,773	726,643	(79,870)	(11.0)
Propane	56,467	61,491	(5,024)	(8.2)	193,384	175,787	17,597	10.0
NGL	133,460	120,107	13,353	11.1	377,282	358,227	19,055	5.3
Total	1,052,962	918,708	134,254	14.6	2,827,850	2,724,199	103,651	3.8

The average LPG price (Contract Price – CP) in Q3/2007 increased by US\$ 46 per ton from US\$ 537 per ton in Q3/2006 to US\$ 583 per ton in Q3/2007 while the average prices of ethylene (South-East Asia Spot) decreased by US\$ 108 per ton, the average prices of propylene (South-East Asia Spot) decreased by US\$ 127 per ton. However the average prices of High Density Polyethylene (HDPE) and Polypropylene (PP) (South-East Asia Spot) increased from the same period of last year. In addition, the price of Naphtha (Mean of Platt – Singapore (MOP'S)) also increased when compared to Q3/2006.

The details of reference products prices for calculation of products from gas separation plants' sales prices are as follows :

Unit : US\$/Ton	Q3/2007	Q3/2006	Difference		9M/2007	9M/2006	Difference	
			(US\$/ton)	%			(US\$/ton)	%
LPG ^{1/}	583	537	+46	+8.5	559	524	+35	+6.8
Ethylene ^{2/}	1,203	1,311	(108)	(8.2)	1,188	1,151	+38	+3.3
Propylene ^{2/}	1,128	1,255	(127)	(10.1)	1,150	1,114	+37	+3.3
HDPE ^{2/}	1,383	1,347	+36	+2.6	1,316	1,220	+96	+7.9
Polypropylene ^{2/}	1,373	1,343	+30	+2.2	1,312	1,213	+100	+8.2
Naphtha ^{3/}	621	540	+81	+15.1	589	525	+64	+12.2

Note : 1/ Contract price (CP) : The government capped the ex-refinery LPG price for domestic sales at US\$ 315 per ton, derived from the CP of US\$ 331 per ton, effective from February 10, 2003 onward.

2/ South East Asia Spot Price

3/ MOP Singapore

EBITDA of gas business unit Q3/2007 increased by Baht 4,095 million or 34.0% due to the increase in sales volume of natural gas and GSPs' products. In addition, PTT received the price discount for fuel adjustment tariff from power producers in an amount of Baht 3,803 million in Q3/2007.

EBIT in Q3/2007 increased by Baht 4,147 million or 39.1% from Q3/2006 due to the increase in EBITDA as mentioned while depreciation and amortization also decreased by Baht 52 million or 3.5% which partly resulted from the change in the accounting estimates for the useful lives of assets by extending of accounting useful lives of gas transmission pipeline systems and gas separation plants, using prospective method since January 1, 2007 which resulted in a decrease in depreciation expenses of 2007 amounting to approximately Baht 1,256 million.

Sales revenue in 9M/2007 increased by Baht 16,197 million or 8.9% from the same period of last year as a result of the increase in gas sales volume by 182 mmscfd or 5.9% from 3,086 mmscfd to 3,268 mmscfd (calculated at heat value 1,000 BTU per cubic feet). The gas separation plants' products sales volume in 9M/2007 also increased from 2,724,199 tons in 9M/2006 to 2,827,850 tons in 9M/2007 from the increase of all products except ethane due to the scheduled plant shutdown of GSP unit 5 for maintenance for 18 and 13 days in Q1/2007 and Q2/2007 respectively in accordance with the plant shutdown of PTTCH, the major ethane customer.

EBITDA in 9M/2007 increased by Baht 6,785 million or 19.7% due to the increase in sales volume of natural gas and GSPs products as mentioned, the increase in price discount for fuel adjustment tariff from EGAT from Baht 225 million in 9M/2006 to Baht 6,367 million in 9M/2007 and the increase in other income while SG&A expenses decreased.

EBIT in 9M/2007 increased by Baht 7,262 million or 23.9% due to the increase in EBITDA. In addition, the depreciation and amortization also decreased by Baht 477 million as a result of the change in the accounting estimates for the useful lives of assets of both gas transmission pipeline systems and gas separation plant as mentioned above.

□ **PTT Exploration and Production Public Co., Ltd. (PTTEP)**

In Q3/2007, PTTEP's net sales was Baht 21,270 million, increased by Baht 1,311 million or 6.6% from the same period of last year, resulted from the higher sales volume from 168,830 barrels of oil equivalent per day (BOED) in Q3/2006 to 183,660 BOED in Q3/2007. The increase in sales volume resulted mainly from the natural gas sales from the Bongkot, Pailin, Oman 44 and Phu Horm projects and crude sales from the S1 project despite the decrease in crude sales from the B8/32&9A in Q3/2007 when compared to Q3/2006 and suspension of the Nang Nuan's production since August 28, 2007. However, the average petroleum sales price in Baht currency decreased although the average petroleum sales prices in USD currency rose from USD 38.25 per barrel of oil equivalent (BOE) in Q3/2006 to USD 38.75 per BOE in Q3/2007 which resulted from decrease in average sales exchange rate from Baht 38.09 per USD in Q3/2006 to Baht 34.39 per USD in Q3/2007

EBITDA in Q3/2007 was Baht 17,294 million, increased from Q3/2006 by Baht 881 million or 5.4% due to the increase in sales volume despite the decrease in average sales price in Baht denomination. Moreover there

were a decrease in exploration expenses by Baht 330 million from Baht 1,530 million in Q3/2006 to 1,200 million in Q3/2007. In Q3/2007 there was the write-off of 4 dry wells in Q3/2007 which comprise of 2 dry wells of the Vietnam 16-1 (TGH-1X and TGL-1X), 1 dry well of the Bengari-1 (TIRAM 1) and 1 dry well of the B8/32 projects (Jarmjuree 13) whereas in Q3/2006 there was the write-off of 5 dry wells from the Myanmar M7&M9, Vietnam 16-1, L22/43, G4/43 and Unocal III projects. However, operating expenses increased due mainly to Nang Nuan project's facilities re-location cost due to suspended production and recognized operating cost of crude sold, B8/32&9A project's maintenance cost in order to maintain production level and the construction cost from Arthit gas export pipeline to customer.

EBIT in Q3/2007 was Baht 13,200 million, increased by Baht 1,103 million or 9.1% which resulted from the increase in EBTIDA and the decrease in depreciation and amortization (DD&A) from the B8/32 &9A project despite the increase in DD&A from the pailin, Bongkot, S1, Oman44 and Phu Horm projects resulted from the increase in production volume and additional completed oil and gas properties.

For 9M/2007, PTTEP's net sales was Baht 58,632 million, increased by Baht 526 million or 0.9% from the same period of last year, resulted from the higher sales volume from 170,657 BOED in 9M/2006 to 178,049 BOED in 9M/2007, resulted mainly from the natural gas and condensate sales from the Oman 44 and Phu Horm project, the natural gas sales from the Yadana project and the crude sales from the S1 project despite the lower crude sales from the B8/32 & 9A project in 9M/2007. However, the average petroleum sales price in Baht currency decreased despite the increase in average petroleum sales prices in USD currency from USD 36.72 per barrel of oil equivalent (BOE) in 9M/2006 to USD 37.51 per BOE in 9M/2007 which resulted from the decrease in average sales exchange rate from Baht 38.69 per USD in 9M/2006 to Baht 35.06 per USD in 9M/2007.

EBITDA in 9M/2007 was Baht 48,965 million, increased from 9M/2006 by Baht 114 million or 0.2% due to the increase in sales volume and the decrease in exploration expenses. However, operating expenses increased due mainly to Nang Nuan project's facilities re-location cost due to suspended production, B8/32&9A project's maintenance cost in order to maintain production level and the construction cost from Arthit gas export pipeline to customer. General administrative expenses also increased due mainly to the B8/32&9A, Algeria 433a&416b, Oman44 and Phu Horm projects as a result of the increase in operating activities.

EBIT in 9M/2007 was Baht 37,340 million, increased by Baht 63 million or 0.2% from the same period of last year due to the increase in depreciation and amortization by Baht 51 million or 0.4%.

☐ Petrochemical Subsidiaries which comprise of PTTCCH, PTTTPM, PPCL, PTTPL, HMC and PTTAC

In Q3/2007, petrochemical subsidiaries and joint ventures' sales was Baht 23,030 million, increase by Baht 3,871 million or 20.2% from Q3/2006 due mainly to the increase in PTTTPM and PTTCCH's sales volume after its capacity expansion including the increase in selling prices according to the increase in global market prices.

EBITDA in Q3/2007 was Baht 7,400 million, increased by Baht 647 million or 9.6% from Q3/2006, resulted from higher sales volume and higher product to feed margin, especially the product to feed margin of MEG due to the continuous increase in global demand while supply is tight, especially from MEG's plant shutdown in Saudi Arabia since July 2007.

EBIT in Q3/2007 was Baht 6,532 million, increased by Baht 517 million or 8.6% from Q3/2006 due to the increase in EBITDA despite the increase in depreciation and amortization by Baht 130 million or 17.6%.

For 9M/2007, petrochemical subsidiaries and joint ventures' sales was Baht 56,195 million, increased by Baht 1,188 million or 2.2% resulted mainly from the increase in HMC and PTTPM's sales.

EBITDA in 9M/2007 was Baht 16,346 million, decreased by Baht 1,953 million or 10.7% from 9M/2006 despite the increase in sales. This is resulted mainly from the PTTC's Olefins I4-1 plant shutdown in Q1/2007 to increase its capacity and PTTC's Olefins I1 plant shutdown in Q2/2007 for its maintenance.

EBIT in 9M/2007 was Baht 13,858 million, decreased by Baht 2,392 million or 14.7% resulted from the decrease in EBITDA and the increase in depreciation and amortization by Baht 439 million or 21.4% when compared to the same period of last year due mainly to the increase in PTTC's depreciation and amortization.

- **Net Income :** Net income in Q3/2007 increased from Q3/2006 by Baht 164 million or 0.7% and Net income in 9M/2007 decreased from 9M/2006 by Baht 6,355 million or 8.0%

Net income of PTT and its subsidiaries in Q3/2007 was 24,484 million or Baht 8.72 per share, increased from Q3/2006 by Baht 164 million or 0.7% while net income in 9M/2007 was Baht 73,346 million or Baht 26.14 per share, decreased from 9M/2006 by Baht 6,355 million or 8.0% from 9M/2006, despite the increase in sales volume and sales price of almost all oil and gas products due to the major reasons as follows;

: Share of net income from investments under equity method decreased by Baht 1,143 million or 16.7% from Baht 6,857 million in Q3/2006 to Baht 5,713 million in Q3/2007 due mainly to the lower operating performance of petrochemical associates from the lower Product to Feed Margin despite the higher sales volume. Share of net income from investments in refining associates also decreased due to the lower performance of Thai Oil Public Company Limited (TOP) as a result of the TOP's CDU-2 planned shutdown for 14 days to tie-in TPX's TATORAY..

Share of net income from investments under equity method for 9M/2007 increased by Baht 4,371 million or 24.6% from Baht 17,771 million in 9M/2006 to Baht 22,142 million in 9M/2007, due mainly to the improvement of the petrochemical associates' operating performance when compared to 9M/2006 and the recognition of an investment in IRPC under the equity method in 2007 for 9 months compared to 6 months in 2006 starting from the second quarter. Refining associates also reported better performance due to the higher gross refining margin (GRM) and the recognition of an investment in RRC under the equity method for 9 months in 2007 compared to 4 months in 2006. PTT's complex refineries (included inventory gain/loss) increased from US\$ 6.73/bbl in 9M/2006 to US\$ 9.06/bbl in 9M/2007.

Details of net income from investments under equity method are as follows;

Unit : Million Baht	Q3/2007	Q3/2006	9M/2007	9M/2006
Refining associates	3,515	3,529	14,209	12,548
Petrochemical associates	2,062	3,030	7,564	4,631
Oil associates	6	(10)	38	9
Gas associates	58	123	116	232
Other associates	<u>72</u>	<u>185</u>	<u>215</u>	<u>352</u>
Total	5,713	<u>6,857</u>	22,142	<u>17,771</u>

: There was gain on foreign exchange in an amount of Baht 724 million in Q3/2007, decreased from Q3/2006 by Baht 782 million. Gain on foreign exchange in 9M/2007 was Baht 3,807 million, decreased from 9M/2006 by Baht 4,263 million.

: Interest expenses of PTT and its subsidiaries in Q3/2007 increased by Baht 966 million or 47.7% when compared to the same period of last year while interest expenses in 9M/2007 decreased by Baht 57 million or 0.7% when compared to the same period of last year.

: Gain on disposal of investment in Q3/2007 was Baht 675.52 million; increased 100% since there was no gain on disposal of investment in Q3/2006. In 9M/2007, gain on disposal of investment was Baht 675.52 million, decreased by Baht 6,454.96 million or 90.5% due mainly to Baht 7,130.48 million gain on disposal of investment in RRC in 9M/2006.

: Income taxes in Q3/2007 increased by Baht 1,796 million or 21.5% when compared to the same period of last year while increased by Baht 224 million or 0.8% in 9M/2007 when compared to the same period of last year, resulted from the increase in net income and the increase in corporate income tax rate of PTT from 25% in 2006 to 30% starting from the year 2007.

2. The Analysis of PTT and its subsidiaries' Financial Status at the end of Q3/2007 compared to the end of the year 2006

Financial status of PTT and its subsidiaries at the end of Q3/2007 compared to the end of the year 2006 is as follows :

Assets

As of September 30, 2007, total assets was Baht 903,366 million, increased from the end of the year 2006 by Baht 151,912 million or 20.2% as a result of the increase in current assets by Baht 73,624 million due primarily to the increase in trade accounts and notes receivable-others, net by Baht 39,451 million, the increase in trade accounts receivable – related parties, net by Baht 37,895 million, the increase in inventories by Baht 5,369 million which resulted mainly from the increase in oil and gas product prices. However, cash and cash equivalents decreased by Baht 5,879 million since there was cash used in investing activities in the total amount of Baht 74,416 million and cash used in financing activities in the total amount of Baht 11,414 million despite cash from operating

activities in the total amount of Baht 79,947 million. Other current assets also decreased by Baht 4,347 million due to the decrease in oil fund and the transfer of PTTCH's construction advance payment in other current assets to Property, plant and equipment.

Non-current assets also increased by Baht 78,288 million, resulted mainly from the increase in the property, plant and equipment-net by Baht 57,090 million due mainly to the increase in PTTEP's oil and gas properties-net by Baht 13,733 million, mainly resulted from the investment in the Arthit, MTJDA and Myanmar M7&M9 projects, the increase in investment in PTT's third natural gas pipeline project, Wangnoi - Kangkoi natural gas pipeline and Sainoi - South Bangkok natural gas pipeline system, PTTEP's ethylene cracker project and Methyl Ester and fatty Alcohol project of Thai Oleochemicals Company Limited. Investments in subsidiaries, associates and joint ventures also increased by Baht 14,079 million due to the recognition of PTT's affiliates performance under the equity method despite the dilution of PTT's stake in ATC, RRC and PTCH in 9M/2007. Intangible assets increased by Baht 7,617 million due mainly to the shares purchase in PTTEP in the Stock Exchange of Thailand which caused the arising of goodwill from the acquisition in an amount of Baht 1,189 million, goodwill from the acquisition of ConocoPhillips' retail petroleum business of Baht 4,003 million and intangible assets of COP which were transferred to PTTRB of Baht 1,092 million.

Liabilities

Total liabilities was Baht 496,380 million, increased from the end of the year 2006 by Baht 99,248 million or 25.0%. Current liabilities increased by Baht 70,107 million due mainly to the increase in trade accounts payable - others by Baht 69,976 million, the increase in trade accounts payable - related parties by Baht 5,844 million mainly due to the increase in oil and gas purchase prices. Other current liabilities also increased by Baht 7,106 million while current portion of long-term loans decreased by Baht 11,573 million and income tax payable decreased by Baht 6,062 million resulted from tax payment to the Revenue Department during the period.

Non-current liabilities increased by Baht 29,142 million due mainly to the increase in long-term loans by Baht 28,541 million from PTT's and its subsidiaries' bond issuances and long-term loans borrowing.

The maturity of long-term loans, debentures and government bonds as of September 30, 2007 are as follows :

Unit : Million Baht

Maturity (from Sep. 30, 2007)	PTT	PTTEP	DCAP	PTNGD	PTTUT	TTM(T)	TTM(M)	PPCL	PTTCH	รวม
Within 1 year (Sep. 30, 2008)	7,378.07		73.50	8.00	-			-	2,341.02	9,800.59
Between 1 to 2 years	9,791.38	-	73.50	-	347.71	515.78	29.04	-	1,653.48	12,410.89
Between 2 to 5 years	63,515.56	13,000.00	220.50	-	1,042.63	2,148.21	141.44	858.00	1,024.21	81,950.35
Beyond 5 years	104,412.34	5,500.00	402.50		1,940.74	5,760.36	386.38	1,975.54	11,467.71	131,845.57
Total	185,097.35	18,500.00	770.00	8.00	3,331.08	8,424.35	556.86	2,833.54	16,486.22	236,007.40

The long-term loan outstanding (including long-term loans and bonds due within 1 year and later than 1 year) as of September 30, 2007 consisted of local and foreign debt, details of which are as follows :

Unit : Million Baht

Long-term debt outstanding	PTT	PTTEP	DCAP	PTTNGD	PTTUT	TTM(T)	TTM(M)	PPCL	PTTCH	รวม
Local Debt	132,253.00	18,500.00	770.00	8.00	3,331.08			2,833.54	5,744.34	163,439.96
Foreign Debt	52,844.35					8,424.35	556.86		10,741.88	72,567.44
Total	185,097.35	18,500.00	770.00	8.00	3,331.08	8,424.35	556.86	2,833.54	16,486.22	236,007.40
Ratio of long-term foreign debt to total long-term debt (%)	28.55%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	65.16%	30.75%

As of September 30, 2007, PTT's loans and bonds amounting to Baht 44,438 million is guaranteed by the Ministry of Finance.

Shareholders' Equity

Total shareholders' equity as of September 30, 2007 were Baht 406,986 million, increased from the end of 2006 by Baht 52,664 million or 14.9%. The increase was due mainly to the unappropriated retained earnings of Baht 43,852 million which resulted from PTT and its subsidiaries' net profit of Baht 73,346 million despite the dividend payment of Baht 36,516 million.

In 9M/2007 there was increase in share capital resulted from the exercise of warrants under Employee Stock Option Program (ESOP) in February, May, August and September of 2007 which caused an increase in issued and paid-up share capital in an amount of Baht 107.293 million (1,072,930 shares) and an increase in premium on ordinary shares of Baht 1,982 million. As a result, as of September 30, 2007, the number of unexercised warrants is 41.59 million units, which consists of Warrant-1 issued and offered on September 1, 2005 of 24.06 million units (last exercise date: August 31, 2010) and Warrant-2 issued and offered on September 29, 2006 of 17.53 million units (first exercise date: September 28, 2007, last exercise date: September 28, 2011).

Liquidity

In 9M/2007, net decrease in cash and cash equivalents of PTT and its subsidiaries was Baht 5,880 million, while cash and cash equivalents at the beginning of the period was Baht 86,806 million, which resulted that cash and cash equivalents at the end of the period was Baht 80,927 million, details of activities are as follows :

	<u>Amount (Million Baht)</u>
Net cash provided by operating activities	79,947
Net cash used in investing activities	(74,416)
Net cash used in financing activities	(11,414)
Effects of exchange rates on cash and cash equivalents	26
Currency translation differences	<u>(22)</u>
Net increase in cash and cash equivalents in 9M/2007	(5,880)

Cash and cash equivalents at beginning of periods	<u>86,806</u>
Cash and cash equivalents at end of periods	<u>80,927</u>

Net cash flow from operating activities of Baht 79,947 million was derived from net income of Baht 73,346 million and adjusted with non cash items. Adjustment of net income to net cash provided by operating activities comprised mainly of depreciation, depletion and amortization of Baht 20,744 million, income of minority interests of Baht 12,740 million, amortization of exploration costs of Baht 1,152 million and deferred income taxes of Baht 816 million. Adjustments of net income to net cash used by operating activities comprised mainly of gains on disposal of investments of Baht 676 million, share of net income from investments under equity method of Baht 22,142 million, gain on foreign exchange of Baht 3,635 million, dividends received of Baht 364 million and allowance for loss on lawsuits of Baht 204 million. In addition, there was a decrease in working capital in the total amount of Baht 1,791 million due mainly to the increase in trade-accounts receivable and inventories while income tax payable decreased. However, other current assets and advance payment for gas purchased decreased whereas trade account payable and accrued expenses increased.

Net cash used in investing activities in 9M/2007 was Baht 74,416 million, resulted mainly from the investment activities in property, plant and equipment of Baht 70,537 million, mainly from the investment in PTT's third natural gas pipeline project, Wangnoi-Kangkoi gas pipeline system, Sainoi-South Bangkok gas pipeline system, PTTPE's ethylene cracker project and Methyl Ester and fatty Alcohol project of Thai Oleochemicals Company Limited, investments in subsidiaries, associates and joint ventures of Baht 10,287 million from shares purchase in PTTEP, the acquisition of JET / Jiffy brand retail petroleum business from ConocoPhillips (COP), payment for paid up share capital of PTTPL and PTTUT. In addition, there was payment for intangible assets of Baht 953 million, short term loan to others of Baht 511 million and payment of general investments of Baht 305 million which was mainly due to the additional paid up capital in Ratchaburi Power Co., Ltd (RPCL) in an amount of Baht 264 million and the payment of the investment in MFC Energy Fund of Baht 41 million. However, there were dividend received in the total amount of Baht 6,474 million, cash received from disposal of long-term investments of Baht 1,366 million and the decrease in current investment of Baht 317 million.

Net cash used in financing activities in 9M/2007 was Baht 11,414 million, resulted mainly from long-term loans borrowing of Baht 9,063 million; which comprises of PTT's long-term loan of Baht 6,000 million, PTTUT's of Baht 905 million, PTT (Phenol) Co., Ltd (PPCL)'s of Baht 1,860 million and PTTCH's of Baht 300 million, and the bond issuances of Baht 32,436 million; comprises of PTT's bond issuance of Baht 6,000 million in Q1/2007, PTT's Samruai Bond of Yen 36,000 million (approximate Baht 10,000 million) in Q2/2007, PTTEP's bond issuance of Baht 3,500 million in Q1/2007 and Baht 12,500 million in Q2/2007 while there were repayment of long-term loans in the total amount of Baht 7,918 million, repayment of bonds in the total amount of Baht 8,386 million, redemption of government bonds of Baht 5,000 million and dividend payment of Baht 36,516 million.

Financial ratios and earnings per share of PTT and its subsidiaries for Q3/2007, Q3/2006, 9M/2007 and 9M/2006 calculated according to the Office of the Securities and Exchange Commission's formulae are as follows :

Financial Ratios and earnings per share	Unit	Consolidated		Consolidated	
		Q3/2007	Q3/2006	9M/2007	9M/2006
<u>Liquidity Ratios</u>					
Current Ratio	Time	1.38	1.30	1.38	1.30
Quick Ratio	Time	1.16	1.01	1.16	1.01
<u>Profitability Ratios</u>					
Gross Profit Margin	%	10.46	11.30	10.26	11.65
Net Profit Margin	%	6.04	6.72	6.69	8.23
<u>Financial Ratios</u>					
Total Debt to Equity Ratio	Time	1.22	1.16	1.22	1.16
Interest Coverage Ratio	Time	14.04	16.79	14.67	12.49
<u>Earnings per share (EPS)</u>					
EPS	Baht/share	8.72	8.69	26.14	28.48

3. Effects from the change in accounting policy regarding investments in subsidiaries, associates and jointly controlled entities

Since January 1, 2007, PTT changed its accounting policy regarding investments in subsidiaries, associates and jointly controlled entities so that the Company financial statements (or 'The separate financial statements'), which formerly reported investment using the equity method, now reports using the cost method in accordance with the Notification No. 26/2006 issued by the Federation of Accounting professions regarding the Accounting Standard No. 44 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" (Amendment No. 1). These changes in an accounting policy resulted in applying retrospective method to the Company's financial statements for the 3-month and 9-month periods ended September 30, 2006 that presented comparatively. This adjustment caused the followings;

Q3/2007 performance compared to Q3/2006

Net income in the Company financial statements is not equal to net income in the Consolidated financial statements. In Q3/2007, net income on the Company financial statements was Baht 19,154 million, lower than that of the consolidated financial statements, which was Baht 24,484 million, by Baht 5,330 million, or decreased by Baht 1.90 per share. The net income in Q3/2006 on the Company financial statements was Baht 16,634 million lower than that of the consolidated financial statements, which was Baht 24,320 million, by Baht 7,686 million, or decreased by Baht 2.75 per share. This is because the Company financial statement did not include share of net income from investments under the equity method in the total amount of Baht 13,461 million in Q3/2007 and Baht

14,346 million in Q3/2006. However, net income in the Company financial statement included dividend income and other incomes in the total amount of Baht 8,131 million in Q3/2007 and Baht 6,660 million in Q3/2006.

9M/2007 performance compared to 9M/2006

Net income in the Company financial statements is not equal to net income in the Consolidated financial statements. In 9M/2007, net income on the Company financial statements was Baht 49,715 million, lower than that of the consolidated financial statements, which was Baht 73,346 million, by Baht 23,631 million, or decreased by Baht 8.42 per share. The net income in 9M/2006 on the Company financial statements was Baht 56,152 million lower than that of the consolidated financial statements, which was Baht 79,701 million, by Baht 23,549 million, or decreased by Baht 8.41 per share. This is because the Company financial statements did not include share of net income from investments under the equity method in the total amount of Baht 43,150 million in 9M/2007 and Baht 44,474 million in 9M/2006. However, net income in the Company financial statements included dividend income, other incomes and gain on disposal of investment in the total amount of Baht 19,518 million in 9M/2007 and Baht 20,925 million in 9M/2006.

However, the change of accounting policy affects only the Company financial statements. It did not have any effect on the consolidated financial statements or business fundamentals.

4. Economic Outlook in the fourth quarter of 2007 (Q4/2007)

Crude oil and refined petroleum products prices are soaring continuously from Q3/2007 as a result of the political problem in the Middle East, the weaker US dollar, the speculation of hedge funds and the concerns on lower oil reserves to cope with robust demand during the winter. It is forecasted that the prices of crude oil and refined petroleum products in Q4/2007 will sustain at this high level and will be more fluctuate. This will be in the opposite direction to the movement of petrochemical products prices which tend to decrease after its peak season.

For the Thai economy in Q3/2007, the economic indicators showed the recovery sign of domestic demand, both private consumption and private investment. Exports continued to expand although at the decelerated pace. It is expected that the private consumption in Q4/2007 will be stimulated by the liquid cash flow during the election period, which will be held on December 23, 2007, together with the festive season, traveling season and more spending in the fourth quarter. However, it was conceded that the high cost of living in October 2007 from the higher retail oil prices, the increase in public transportation fare and certain essential goods and government's plan to raise the domestic LPG price in the near future will put pressure on the inflation and will further impact the purchasing power and economic growth. As a result, the average GDP growth is expected to slowdown from 5.0% in 2006 to 4.5% in 2007.

Domestic oil demand tends to slow down from dramatic increase in oil price. As a result, it will encourage the increase usage in alternative fuel such as Ethanol, bio-diesel and Natural gas for Vehicle (NGV), which are cheaper. Meanwhile, the natural gas demand continues to expand, especially the natural gas usage to

substitute fuel oil in the electricity generation sector and the NGV in the transportation sector. Petrochemical demand also continues to expand in relation to the economic growth and the high demand from countries such as the People's Republic of China.