

## Management's Discussion and Analysis (MD&A) and operating results for the fourth quarter and the year 2007 compared to the same period of the year 2006

### 1. PTT and its subsidiaries' performance

In 2007, Thailand's economic growth was driven by exports and an acceleration of the government's fiscal spending despite the strengthen of Thai baht. Private consumption and investment in 2007 was slow down but showed signs of recovery in the second half of the year. As a result, the Thai economy in 2007 expanded at 4.8% year-on-year. In 2007, petroleum consumption as fuel increased 1.80% from the previous year. The growth of natural gas consumption in industrial sectors (including NGV) was in the top rank (increased by 26.2%), followed by LPG usage which grew at the rate of 14.3% due to government policy to support the LPG price. Meanwhile, fuel oil consumption decreased by 27.90% because of the increase usage of natural gas for electricity generation instead of fuel oil after the completion of the third pipeline. The domestic demand of refined oil products increased by 0.2% from the previous year while the domestic demand of petrochemical products also increased in relation to the continued economic expansion and the export to the high demand countries such as China.

PTT and its subsidiaries' revenue in Q4/2007 was Baht 433,788 million, increased from the forth quarter of the year 2006 (Q4/2006) by Baht 153,226 million or 54.6%. Earning before interest, tax, depreciation and amortization (EBITDA) was Baht 35,028 million, increased from Q4/2006 by Baht 4,886 million or 16.2%. Share of net income from investments under the equity method in Q4/2007 was Baht 8,938 million, increased from Q4/2006 by Baht 7,570 million or 553.2%. In Q4/2007, PTT had expenses from judgment of Supreme Administrative Court in the total amount of Baht 2,825 million as a result of the transfer of assets to and lease back from the Ministry of Finance according to the verdict of the Supreme Administrative Court. There was gain on disposal of investments in PTT Chemical Public Co., Ltd. (PTTCH), Thai Oil Public Co., Ltd. (TOP) and PTT Exploration and Production Public Co., Ltd. (PTTEP) in the total amount of Baht 7,752 million (before tax) in Q4/2007. As a result, PTT and its subsidiaries' net profit was Baht 24,457 million, increased by Baht 8,576 million or 54.0%.

For the year 2007, PTT and its subsidiaries' revenue was Baht 1,495,806 million, increased by Baht 281,821 million when compared to the year 2006, or 23.2%. EBITDA was Baht 147,346 million, increased by Baht 4,671 million or 3.3%. Share of net income from investments under the equity method was Baht 31,080 million, increased by Baht 11,941 million or 62.4% resulted mainly from the change of PTTCH's status from PTT's subsidiary to an associate starting from November 9, 2007 and the recognition of an investment in IRPC Public Co., Ltd. (IRPC) (formerly TPI) under the equity method for the whole year when compared to 9 months recognition in 2006 starting from the 2<sup>nd</sup> quarter. In 2007, there was gain on disposal of investments in PTTCH, TOP, PTTEP, Aromatics (Thailand) Public Co., Ltd. (ATC) and Rayong Refinery Public Co., Ltd (RRC) in the total amount of Baht 8,428 million (before tax) while there was gain on disposal of investment in RRC shares in an amount of Baht 7,130 million (before tax) in 2006. As a result, PTT and its subsidiaries' net profit was Baht 97,804 million, increased by Baht 2,221 million or 2.3%.

For Q4/2007 and twelve-month period ended December 31, 2007 (compared to the same period of last year), there was significant changes of the status and new investments in subsidiaries/associates and the amalgamation of PTT's affiliates as follows

: On May 25, 2007, there was an establishment of PTT Retail business Co., Ltd (PTTRB), a wholly-owned subsidiary of PTT to acquire 100% of the shares of ConocoPhillips Company (COP). On June 28, 2007, COP has transferred its entire oil retail business in Thailand under the JET / Jiffy to PTTRB.

: On August 27, 2007, PTT has established Combined Heat and Power Producing Co., Ltd (CHPP) as a wholly-owned subsidiary.

: On October 1, 2007, PTT has established PTT International Co., Ltd. (PTT INTER) as a wholly-owned subsidiary.

: On November 9, 2007, PTT has established PTT Green Energy Pte. Ltd. (PTTGE) as a wholly-owned subsidiary.

: On November 9, 2007, PTT has reduced its shares holding in PTTCH to 49.80%. As a result, PTTCH's status is changed from a subsidiary of PTT to an associate. Subsequently, the status of PTT Phenol Co., Ltd. (PPCL), PTT Utility Co., Ltd. (PTTUT) and PTT ICT Solutions Co., Ltd. (PTTICT) are also changed from subsidiaries to associates of PTT accordingly.

: On December 27, 2007, ATC and RRC has announced the registration of amalgamation and the formation of the new company namely PTT Aromatics and Refining Public Company Limited (PTTAR). Consequently, PTT's shareholding in the PTTAR was 48.66%.

: On December 28, 2007, PTT acquired 40% stake in NPTC Maintenance and Engineering Services Co., Ltd (NPTC) from Toyo Thai Corporation Co., Ltd. (Toyo Thai).

PTT and its subsidiaries' consolidated financial performance comparison between Q4/2007 and Q4/2006 and between 2007 and 2006 are as follows

Unit: Million Baht

	Q4/2007	Q4/2006	Difference		2007	2006	Difference	
Sales & services	433,788	280,562	153,226	54.6%	1,495,806	1,213,985	281,821	23.2%
: Oil <sup>1/</sup>	359,822	210,691	149,130	70.8%	1,209,070	995,443	213,627	21.5%
: Gas <sup>2/</sup>	69,509	62,981	6,528	10.4%	267,408	244,684	22,725	9.3%
: PTTEP	22,898	18,313	4,585	25.0%	81,530	76,419	5,111	6.7%
: Refinery <sup>3/</sup>	-	-	-	-	-	76,389	(76,389)	(100.0%)
: Petrochemical <sup>4/</sup>	14,555	21,670	(7,115)	(32.8%)	70,749	76,676	(5,927)	(7.7%)
: Others <sup>5/</sup>	-	-	-	-	-	-	-	-
: Elimination	(32,995)	(33,093)	97	0.3%	(132,951)	(255,625)	122,674	48.0%

	Q4/2007	Q4/2006	Difference		2007	2006	Difference	
EBITDA	35,028	30,142	4,886	16.2%	147,346	142,675	4,671	3.3%
: Oil <sup>1/</sup>	1,203	(582)	1,785	306.5%	8,607	5,003	3,604	72.0%
: Gas <sup>2/</sup>	13,378	10,284	3,094	30.1%	54,685	44,806	9,879	22.0%
: PTTEP	17,884	14,462	3,422	23.7%	66,850	63,313	3,536	5.6%
: Refinery <sup>3/</sup>	-	-	-	-	-	6,469	(6,469)	(100.0%)
: Petrochemical <sup>4/</sup>	3,405	6,035	(2,630)	(43.6%)	19,751	24,334	(4,583)	(18.8%)
: Others <sup>5/</sup>	(831)	54	(885)	(1,639.1%)	(2,482)	(620)	(1,862)	(300.6%)
: Elimination	(12)	(111)	100	89.6%	(65)	(631)	566	89.6%
EBIT	27,322	23,932	3,390	14.2%	118,896	115,920	2,976	2.6%
: Oil <sup>1/</sup>	444	(1,110)	1,554	140.0%	6,055	2,949	3,106	105.3%
: Gas <sup>2/</sup>	11,914	8,861	3,053	34.5%	49,550	39,235	10,315	26.3%
: PTTEP	13,539	11,138	2,402	21.6%	50,879	48,415	2,464	5.1%
: Refinery <sup>3/</sup>	-	-	-	-	-	5,728	(5,728)	(100.0%)
: Petrochemical <sup>4/</sup>	3,121	5,392	(2,271)	(42.1%)	16,979	21,642	(4,663)	(21.5%)
: Others <sup>5/</sup>	(871)	40	(911)	(2,286.5%)	(2,635)	(668)	(1,967)	(294.6%)
: Elimination	(826)	(389)	(438)	(112.6%)	(1,933)	(1,382)	(551)	(39.9%)
Net profit	24,457	15,881	8,576	54.0%	97,804	95,582	2,221	2.3%
EPS (Baht/Share)	8.68	5.66	3.02	53.4%	34.82	34.14	0.68	2.0%

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), Subic Bay Energy Co., Ltd. (SBECL) while PTT Retail Business Co., Ltd. (PTTRB) has been included since May 25, 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) and PTT LNG Co., Ltd (PTT LNG) while PTT Utility Co., Ltd. (PTTUT) has been included until November 9, 2007. Moreover, Combined Heat and Power Producing Company Limited (CHPP) and PTT International Company Limited (PTT INTER) have been included since August 27, 2007 and October 1, 2007 respectively.

3/ Included the consolidation of RRC during its status as PTT's subsidiary.

4/ Included PTT Polymer Marketing Co., Ltd. (PTTPM) while PTT Polymer Logistics Co., Ltd. (PTTPL) has been included since September, 2006. PTT Asahi Chemical Co., Ltd. (PTTAC) and HMC Polymers Co., Ltd. (HMC) have also been proportionate consolidated since August 1, 2006 and August 3, 2006 respectively. Meanwhile, Bangkok Polyethylene Public CO., Ltd (BPE) and PTT Polyethylene Co., Ltd. (PTTPE) have been included until October 2, 2006 while PTT Chemical Public Co., Ltd. (PTTCH) and PTT Phenol Co., Ltd. (PPCL) have been included until November 9, 2007.

5/ Included the consolidation of Energy Complex Co., Ltd. (EnCo) while included PTT Green Energy Pte. Ltd. (PTTGE) since November 9, 2007. Meanwhile, PTT ICT Solutions Co., Ltd. (PTTICT) has been included until November 9, 2007.

#### Oil Business Group

Sales revenue in Q4/2007 increased by Baht 149,130 million or 70.8% due to the increase in sales volume by 3,906 million liters or 30.4% from 12,860 million liters or equivalent to 879,224 barrels per day in Q4/2006 to 16,766 million liters or equivalent to 1,146,273 barrels per day in Q4/2007. This is due to the increase in both

marketing and trading segment, especially from the sales volume of crude, refined products and petrochemical products. Moreover, the average selling prices of oil was also increase in Q4/2007 in relation to the increase of global market prices.

EBITDA in Q4/2007 increased by Baht 1,785 million from the negative EBTIDA of Baht 582 million in Q4/2006 due to the increase in gross margin per unit of domestic sales. In addition, selling and administrative expenses also decreased by Baht 2,174 million or 44.4%

EBIT increased by Baht 1,554 million in Q4/2007 from the negative EBIT of Baht 1,110 million in Q4/2006 due mainly to the increase in EBITDA as mentioned and the decrease in the depreciation and amortization.

For the year 2007, sales revenue from oil business increased by Baht 213,627 million or 21.5% due to the increase in sales volume by 11,789 million Liters or 22.0% from 53,613 million liters or equivalent to 923,898 barrels per day in 2006 to 65,401 million liters or equivalent to 1,127,037 barrels per day in 2007 resulted from the increase in trading segment, mainly from crude, refined products, petrochemical products and naphtha. Average sales price in 2007 also increased in relation to the increase of global oil prices.

EBITDA increased by Baht 3,604 million or 72.0% from Baht 5,003 million in 2006 to Baht 8,607 million in 2007, due primarily to the increase in gross margin per unit of domestic sales mainly from stock gain in an approximate amount of Baht 3,200 million while selling and administrative expenses also decreased by Baht 4,240 million or 29.9%.

EBIT in 2007 increased by Baht 3,106 million from 2006 or 105.3% due to the increase in EBITDA as mentioned and the slightly decrease in the depreciation and amortization.

□ Exploration, Production and Natural Gas Business Group

● Natural Gas Business Group

Revenue from gas business in Q4/2007 increased from Q4/2006 by Baht 6,528 million or 10.4% due to the following reasons:

- The average natural gas sales volume (included natural gasoline derived from Dew Point Control Units) increased by 209 million cubic feet per day (mmcf/d) from 3,075 mmcf/d in Q4/2006 to 3,284 mmcf/d in Q4/2007 (calculated at heat value 1,000 BTU per cubic feet) or increased by 6.8% which resulted from the increase in gas demand from all group of customers except EGAT.

- The GSPs' products sales volume increased by 17.3% from 943,844 tons in Q4/2006 to 1,106,965 tons in Q4/2007 (excluded LPG purchased from petrochemical producers for resale in an amount of approximately 58,591 tons in Q4/2006 and 77,879 tons in Q4/2007). The increase in sales volume resulted from the higher supply of gas feedstock to GSP. All GSPs' products sales volume increased except Propane due to more GSP's usage of propane to produce LPG to serve the higher domestic demand, especially during the shut down of Thai Oil, one of LPG' producers, for maintenance in December 2007.

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

Unit : Tons	Q4/2007	Q4/2006	Difference		2007	2006	Difference	
			Tons	%			Tons	%
LPG	642,569	505,123	137,446	27.2%	2,252,953	1,968,665	284,288	14.4%
Ethane	282,145	253,119	29,026	11.5%	928,917	979,762	(50,845)	(5.2)%
Propane	47,912	63,340	(15,428)	(24.4%)	241,296	239,126	2,170	0.9%
NGL	134,339	122,262	12,077	9.9%	520,937	480,489	40,448	8.4%
Total	1,106,965	943,844	163,121	17.3%	3,944,103	3,668,042	276,061	7.5%

The average LPG price (Contract Price – CP) in Q4/2007 increased by US\$ 279 per ton from US\$ 477 per ton in Q4/2006 to US\$ 756 per ton in Q4/2007 while average prices of ethylene in the spot market of South East Asia decreased. The average prices of propylene, High Density Polyethylene (HDPE) and Polypropylene (PP) in the spot market of South East Asia including Naphtha in the spot market of Singapore (Mean of Platt – Singapore (MOP's)) increased when compare to the same period of last year.

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

Unit : US\$/Ton	Q4/2007	Q4/2006	Difference		2007	2006	Difference	
			(US\$/ton)	%			(US\$/ton)	%
LPG <sup>1/</sup>	756	477	+279	+58.6%	608	512	+96	+18.7%
Ethylene <sup>2/</sup>	1,156	1,159	-3	-0.2%	1,180	1,157	+23	+2.0%
Propylene <sup>2/</sup>	1,164	1,157	+7	+0.6%	1,154	1,127	+27	+2.4%
High Density								
Polyethylene <sup>2/</sup>	1,462	1,274	+188	+14.8%	1,352	1,234	+118	+9.6%
Polypropylene <sup>2/</sup>	1,394	1,275	+119	+9.3%	1,331	1,232	+99	+8.0%
Naphtha <sup>3/</sup>	735	483	+252	+52.2%	625	515	+110	+21.4%

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. However, in Q4/2007 the government announced the policy to lift the LPG prices in order to reduce the burden of oil fund and will gradually adjust the Ex-Refinery price to reflect the world market price for not more than 40%.

2/ South East Asia Spot Price

3/ MOP Singapore

EBITDA in Q4/2007 increased by Baht 3,094 million or 30.1% comparing to the same period last year due to the increase in sales price and sales volume of natural gas and GSPs' products.

EBIT in Q4/2007 increased by Baht 3,053 million or 34.5% from the same period last year due to the increase in EBITDA as mentioned while the depreciation and amortization decreased, mainly from the change in the useful lives of assets by extending of accounting useful lives of gas transmission pipeline systems and gas separation plants.

Sales revenue in 2007 increased by Baht 22,725 million or 9.3% due to the followings :

- The increase in average natural gas sales volume (include natural gasoline derived from Dew Point Control Unit) by 188 mmcf/d or 6.1% from 3,084 mmcf/d to 3,272 mmcf/d (calculated at heat value 1,000 BTU per cubic feet) in accordance with the increase in gas demand from all types of customers and the increase in gas transmission's capacity as a result to the completion of the third pipeline 1<sup>st</sup> phase, Wangnai-Kaengkhoi transmission pipeline and Sainoi – South Bangkok transmission pipeline in early 2007.

- In 2007, PTT received price discount for fuel adjustment tariff from EGAT by Baht 6,367 million while PTT offered price discount for fuel adjustment tariff to EGAT – net by Baht 2,067 million in 2006.

- The increase in GSPs' products sales volume from 3,668,042 tons in 2006 to 3,944,103 tons in 2007 or 7.5% (details as shown in the above table "details of all products sales from gas separation plants"). The increase in sales volume resulted from the higher supply of gas feedstock to GSPs and higher demand of GSPs' products, especially domestic demand of LPG from transportation sector. However, the sales volume of Ethane decreased 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.

The average LPG price (Contract Price – CP) in 2007 increased by US\$ 96 per ton from US\$ 512 per ton in 2006 to US\$ 608 per ton in 2007. The average prices of ethylene, propylene, HDPE and PP in the spot market of South East Asia including Naphtha in the spot market of Singapore (MOP's) also increased when compared to 2006 due to the increase in oil price and demand/supply situation of the industry. Consequently, the selling prices of Ethane, Propane and NGL of PTT also increased.

EBITDA in 2007 increased by Baht 9,879 million or 22.0% due to the increase in sales prices and sales volume of natural gas and GSPs' products, including the receipt of price discount for fuel adjustment tariff from EGAT despite the slightly increase in SG&A expenses.

EBIT in 2007 increased by Baht 10,315 million or 26.3% due to the increase in EBITDA and the decrease in the depreciation and amortization, mainly from the change in 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 the decrease in depreciation expenses of 2007 in an amount of approximately Baht 1,256 million.

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- **Exploration and Production Subsidiary**

In Q4/2007, PTTEP's net sales revenue was Baht 22,898 million, increased by Baht 4,585 million or 25.0% from the same period last year of Baht 18,313 million. The increase in sales revenue was due mainly to (1) the rise of average petroleum sales price to US\$46.28 per barrel of oil equivalent (BOE) against the same period last year of US\$35.92 per BOE resulting from the higher world market price (2) The higher sales volume in this quarter to 184,867 barrels of oil equivalent per day (BOED) compared with the same period of last year of 165,465 BOED. The increased sales volume mainly came from the petroleum production sales from the Oman 44 and Sinphuham projects and the increased natural gas sales from the Pailin, Bongkot and Yadana projects. However, there was the decrease in petroleum production sales from B8/32&9A project.

EBITDA in this quarter was Baht 17,884 million, increased from the same period of last year by Baht 3,422 million or 23.7%. EBIT was Baht 13,539 million, increased from the same period of last year by Baht 2,402 million or 21.6% due to the increase in average petroleum sales price and higher sales volume as mentioned. The expenses also increased resulted from the increase in operating expenses, higher exploration expense due mainly to the write-off of dry wells, rising of depreciation and amortization expenses mainly from B8/32&9A and Oman 44 projects, recognition of impairment loss from the Nang Nuan project as a result of a decrease in net future cash flow.

In 2007, PTTEP's net sales revenue was Baht 81,530 million compared with last year of baht 76,419 million, increased by Baht 5,111 million or 6.7% due to (1) the average petroleum sales price this year rose to US\$39.78 per BOE resulting from the higher world market price against last year of US\$36.52 per BOE. However, the average USD exchange rate for this year decreased to baht 34.77 per USD against last year's Baht 38.24 per USD as a result of the strengthened of Baht (2) the sales volume this year rose to 179,767 BOED compared with last year of 169,348 BOED. The increased sales volume mainly came from petroleum production sales from the Oman 44 and Sinphuham projects (first production began at the end of last year) including the crude sales from the S1 project and natural gas sales from Pailin and Yadana projects. However, there was the decrease in petroleum production sales from the B8/32&9A project.

EBITDA in 2007 was 66,850 million, increased by Baht 3,536 million or 5.6%. EBIT in 2007 was 50,879 million, increased by Baht 2,464 million or 5.1% due to the increase in sales price and sales volume as mentioned. The expenses also increased due to the rising of depreciation and amortization expenses mainly from Oman 44, Sinphuham, Bongkot, Pailin and S1 projects according to higher production, recognition of impairment loss from the Nang Nuan project as a result of a decrease in net future cash flow, higher operating expense and, higher SG&A expenses.

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**Petrochemical Subsidiaries**

In Q4/2007, petrochemical subsidiaries and joint ventures' sales was Baht 14,555 million, decreased from Q4/2006 by Baht 7,115 million or 32.8% due mainly to the change of status of PTTCH and PTTCL from PTT's subsidiaries to associates since November 9, 2007.

EBITDA in Q4/2006 was Baht 3,405 million, decreased by Baht 2,630 million or 43.6%. EBIT also decreased from Baht 3,121million in Q4/2006 by Baht 2,271 million or 42.1% in Q4/2007, due primarily to the change of status of PTTCH and PPCL from PTT's subsidiaries to associates as mentioned.

In 2007, sales from petrochemical subsidiaries and joint ventures was Baht 70,749 million, decreased from 2006 by Baht 5,927 million or 7.7% despite the increase in the sales revenue of HMC and PTTPM during the past 10 months due to the increase in sales volume and the increase in petrochemical price in relation to the global petrochemical price. This was due to the shut down of Olefin Plants I4-1 of PTTCH for the de-bottlenecking in Q1/2007 and Olefin Plant I1 shutdown for equipment checking in Q2/2007 and the change of status of PTTCH and PPCL from PTT's subsidiaries to associates.

EBITDA in 2007 was Baht 19,751 million, decreased by Baht 4,583 million or 18.8%. EBIT in 2007 was Baht 16,979 million, decrease by Baht 4,663 million or 21.5%, due mainly to the plant shutdown of PTTCH and the change of status of PTTCH and PPCL from PTT's subsidiaries to associates.

- Net Income :** Net income in Q4/2007 increased from Q4/2006 by Baht 8,576 million or 54.0% and  
Net income in 2007 increased from 2006 by Baht 2,221 million or 2.3%

**Q4/2007 net income compared to Q4/2006 net income**

Net income of PTT and it's subsidiaries in Q4/2007 was 24,457 million or Baht 8.68 per share, increased from Q4/2006 by Baht 8,576 million or 54.0% due to the performance of each business as mentioned, including the following reasons;

- : There was gain on disposal of investments in Q4/2007 in the total amount of Baht 7,752 million from partial divestment of investment in PTTCH, PTTEP and TOP.
- : Expenses from judgement of Supreme Administrative Court was Baht 2,825 million
- : Other incomes decreased by Baht 2,708 million due mainly to the decrease in Compensation for loan interest for advance payment for gas purchased (Take-or-Pay) received from the Electricity Generating Authority of Thailand (EGAT) and the Independent Power Plants (IPPs)
- : Share of net income from investments under equity method in Q4/2007 increased by Baht 7,570 million from Baht 1,368 million in Q4/2006 to Baht 8,938 million in Q4/2007 due mainly to the change of PTTCH, PPCL, PTTUT and PTTICT status from PTT's subsidiaries to PTT's associates including ;
  - The improvement of refining associates' operating performance when compared to Q4/2006 due to the increase in gross refining margin (GRM) of PTT's complex refineries. However, in Q4/2007 TOP's Crude Distillation

Unit 3 or CDU-3 was shutdown for the implementation of its capacity expansion which resulted in an increase of total refining capacity by 50,000 barrel per day and its 2 months major-turnaround. In addition, TOP's Hydrocracking Unit 2 or HCU-2 was shutdown for its 33 days major-turnaround and its Mixed-Xylenes (MX) unit was also shutdown for its 70 days maintenance and installation of the new equipment for project expansion.

- The improvement of operating performance of petrochemical associates due to the higher Product to Feed Margin and the change of PTTCH status from PTT's subsidiary to PTT's associate since November 9, 2007.

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

Unit : Million Baht	Q4/2007	Q4/2006	Change	%
Refining associates	5,836	1,164	4,672	+401.4%
Petrochemical associates	3,048	18	3,030	+16,833.3%
Oil associates	-52	9	-61	-692.3%
Gas associates	55	127	-72	-56.7%
Other associates	51	49	2	+3.3%
Total	8,938	1,367	7,570	+553.7%

: Interest expenses of PTT and its subsidiaries in Q4/2007 increased by Baht 129 million when compared to the same period of last year or increased by 5.2%.

: Income taxes in Q4/2007 increased by Baht 5,312 million or 61.0% 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.

#### 2007 net income compared to 2006 net income

Net income of PTT and it's subsidiaries in 2007 was Baht 97,804 million or Baht 34.82 per share, increased from 2006 by Baht 2,221 million or 2.3%, due to the increase in sales prices and sales volume from gas and oil products, including other reasons as follows;

: In 2007 there was gain on disposal of investment of Baht 8,428 million which consists of gain on disposal of partial investments in PTTEP, PTTCH, TOP, ATC and RRC by Baht 2,509, 4,922, 477, 428, and 92 million, respectively, while there was gain on disposal of investment of RRC by Baht 7,130 million in 2006.

: In 2007 PTT had expenses from judgment of Supreme Administrative Court amounting to Baht 2,825 million while there was effect the net income from the judgment in an amount of Baht 322 million in 2006.

: Share of net income from investments under equity method in 2007 increased by Baht 11,941 million from 2006 (including share of gain on foreign exchange of Baht 2,997 million in 2007 and Baht 3,827 million in 2006) due mainly to the change of PTTCH's status from PTT's subsidiary to an associate in Q4/2007 including ;

- The improvement of refining associates' operating performance due to the increase in gross refining margin (GRM) of PTT's complex refineries (included inventory gain/loss) from US\$ 5.49/bbl in 2006 to US\$ 9.99/bbl in 2007. However, in 2007, TOP's CDU-3 was shutdown for the implementation of its capacity expansion and major-turnaround for 2 months as mentioned above.

- The improvement of operating performance of petrochemical associates due to the higher Product to Feed Margin from both Olefins and Aromatics businesses and the full year recognition of an investment in IRPC under the equity method in 2007 when compared to 9 months recognition in 2006 starting from the second quarter.

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

Unit : Million Baht	2007	2006	Change	%
Refining associates	20,045	13,713	+6,332	+46.2%
Petrochemical associates	10,649	4,742	+5,907	+124.6%
Oil associates	56	17	+39	+229.4%
Gas associates	317	667	-350	-52.5%
Other associates	13	-	+13	+100.0%
Total	31,080	19,139	+11,941	+62.4%

: Other incomes in 2007 decreased by Baht 7,481 million due mainly to the decrease in gain on foreign exchange by Baht 4,533 million and the decrease in compensation for loan interest for advance payment for gas purchased (Take-or-Pay) received from the Electricity Generating Authority of Thailand (EGAT) and the Independent Power Plants (IPPs) by Baht 3,544 million.

: PTT and its subsidiaries' interest expenses in 2007 increased by Baht 72 million or 0.7% as a result of additional loan and the issuance of unsecured and un-subordinated debentures as follows;

February 2007	- PTTEP issued Baht 3,500 million unsecured and unsubordinated bonds
March 2007	- PTT issued Baht 6,000 million unsecured and unsubordinated bonds
	- PTT borrowed Baht 6,000 million from the Government Saving Bank to refinance loan which was due on March 26, 2007
June 2007	- PTT issued Yen 36,000 million unsecured and unsubordinated Samurai bond which is equivalent to approximate Baht 10,000 million
	- PTTEP issued 3 tranches of unsecured and unsubordinated bonds in the total amount of Baht 12,500 million
December 2007	- PTT issued 3 tranches of unsecured and unsubordinated bonds in the total amount of Baht 8,000 million

: Income taxes in 2007 increased by Baht 5,536 million or 15.4%, resulted mainly from the increase in PTT's corporate income tax rate from 25% in 2006 to 30% starting from the year 2007.

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

During 2007, there were changes in PTT's affiliates' structure, the acquisition and the establishment of subsidiaries, therefore, balance sheets of PTT and its subsidiaries for the year ended December 31, 2007 included PTTEP, PTTCL, SBECL, RBA, PTTT, PTT NGD, PTTLNG, PTTPM, Enco, PTTPL, PTTRB, CHPP, PTT INTER and PTGGE as the subsidiaries and included TTM(T), TTM(M), DCAP, PTTAC and HMC as the joint ventures under the

proportionate consolidation method. In 2007, PTTCH, PPCL, PTTUT and PTTICT have been changed theirs status from PTT's subsidiaries to PTT's associates.

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

#### Assets

The total assets as of December 31, 2007 were Baht 892,351 million, increased by Baht 139,160 million from 2006 or 18.5%. This resulted from the followings;

- The current assets increased by Baht 66,613 million due mainly to

: the increase in Trade accounts and notes receivable – others, net by Baht 33,285 million and the increase in Trade accounts receivable – related parties, net by Baht 45,814 million which resulted mainly from the increase in oil and gas product prices

: the increase in current investments by Baht 4,818 million which resulted mainly from the increase in fixed deposits and treasury bills

: anyhow, cash and cash equivalents decrease by Baht 11,848 million which resulted from cash used in investing activities by Baht 100,571 million and the decrease in cash at ending of period of subsidiaries transformed to associates by Baht 25,879 million while there was cash provided by operating activities of Baht 110,143 million and cash provided by financing activities of Baht 4,383 million. In addition, Inventories decreased by Baht 1,595 million resulted from the change of PTTCH's status from PTT's subsidiary to an associate despite PTT's Inventories increased by Baht 2,376 million due to the increase in oil prices, Materials and supplies – net decreased by Baht 1,178 million, other current assets decreased by Baht 3,485 million which resulted from the decrease in Refund receivable from the oil stabilization fund of LPG by Baht 7,048 million and the decrease in the accrued interest income and other accrued income by Baht 903 million. However, other accounts receivable-net increased by Baht 1,294 million and Advances increased by Baht 3,755 million from advance of gas separation plant's construction.

- Non-current assets increased by Baht 72,547 million or 14.4% due mainly to

: the increase in Investments in the associates by Baht 89,718 million or 89.5% which resulted from the change of PTTCH, PPCL, PTTUT and PTTICT's status from PTT's subsidiaries to PTT's associates, the investment in East Mediterranean Gas Company S.A.E (EMG) in Egypt through PTT INTER by Baht 16,434 million and improvement of operating performance of TOP, SPRC and IRPC.

: the increase in other non-current assets by Baht 3,255 million or 28.9% which resulted mainly from the increased in Inventories – legal reserve

: the decrease in property, plant and equipment-net by Baht 13,382 million or 4.1% resulted mainly from the change of PTTCH, PPCL, PTTUT and PTTICT's status from PTT's subsidiaries to PTT's associates which caused the decrease in property, plant and equipment-net by Baht 48,575 million despite the increase in PTT's property, plant and equipment-net by Baht 35,193 million from the investment in the third natural gas pipeline

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project, Wangnoin-Kangkoi gas pipeline system, Sainoi-South Bangkok gas pipeline system and PTTEP's investments in Oil and gas properties. Intangible assets also decreased by Baht 2,549 million resulted mainly from the decrease in goodwill due to the change of PTTCH's status from PTT's subsidiary to PTT's associates by Baht 7,877 million despite the increase in goodwill from the establishment of PTTRB for the acquisition of JET / Jiffy brand retail petroleum business from ConocoPhillips (COP). However, the leasehold rights/rights to use increased by Baht 2,346 million resulted mainly from the increase in rights to use land under the Wangnoin-Kang koi gas pipeline project and the South-Bangkok power plant gas pipeline project by Baht 783 million and Baht 526 million respectively and the increase in leasehold rights of Mab-Ta-Put's Port by Baht 222 million. Advance payment for gas purchased also decreased by Baht 3,896 million resulted from the make-up of the prepaid gas by PTT.

#### Liabilities

Total liabilities was Baht 493,700 million, increased from the end of the year 2006 by Baht 96,569 million or 24.3%. Current liabilities increased by Baht 77,309 million due mainly to the increase in trade accounts payable - others by Baht 60,905 million, the increase in trade accounts payable - related parties by Baht 16,705 million mainly due to the increase in oil and gas purchase prices. Income tax payable also increased by Baht 5,688 million due to the better operating performance and the increase in corporate income tax rate of PTT from 25% in 2006 to 30% starting from the year 2007 while long-term loans due within 1 year decreased by Baht 13,000 million.

Non-current liabilities increased by Baht 19,260 million due mainly to the increase in long-term loans by Baht 14,048 million resulted from PTT's and its subsidiaries' bond issuances and long-term loans borrowing in the total amount of Baht 54,648 million, which consists mainly of the borrowing by PTT, PTTEP, PPCL, PTTUT and PTTCH by Baht 30,071 million, Baht 16,364 million, Baht 2,020 million, Baht 1,003 million and Baht 5,188 million respectively, while there was repayment of long-term loans and debenture and the redemption of government bonds in the total amount of Baht 21,496 million and the change of PTTCH, PPCL, PTTUT and PTTICT status from PTT's subsidiaries to PTT's associates. Other non-current liabilities increased by Baht 3,735 million due mainly to the increase in long-term liability (Make-up) arising from the amount of difference between the natural gas price for the committed gas volume that PTT paid in advance and the natural gas price as at the date of taking the gas that exceeds the interest paid for advance payment of untake-up gas volume (Take-or-Pay) in which PTT has to distribute such difference to the parties who paid the Take or Pay interest for the Yadana and Yetagun gas fields.

The maturity of long-term loans, debentures and government bonds as of December 31, 2007 are as follows :Unit : Million Baht

Maturity (from Dec. 31, 2007)	PTT	PTTEP	DCAP	TTM(T)	TTM(M)	Total
Within 1 year (Dec. 31, 2008)	8,378.97		73.50			8,452.47
Between 1 to 2 years	9,792.75	-	73.50	592.99	28.63	10,487.87
Between 2 to 5 years	63,475.85	13,000.00	231.00	2,117.81	139.80	78,964.46
Beyond 5 years	110,592.39	5,500.00	392.00	5,591.03	380.68	122,456.10
<b>Total</b>	<b>192,239.96</b>	<b>18,500.00</b>	<b>770.00</b>	<b>8,301.83</b>	<b>549.11</b>	<b>220,360.90</b>

The long-term loan outstanding (including long-term loans and bonds due within 1 year and later than 1 year) as of December 31, 2007 consisted of local and foreign debt, details of which are as follows :

Unit : Million Baht

Long-term debt outstanding	PTT	PTTEP	DCAP	TTM(T)	TTM(M)	Total
Local Debt	140,253.00	18,500.00	770.00			159,523.00
Foreign Debt	51,986.96			8,301.83	549.11	60,837.90
Total	192,239.96	18,500.00	770.00	8,301.83	549.11	220,360.90
Ratio of long-term foreign debt to total long-term debt (%)	27.04%	0.00%	0.00%	100.00%	100.00%	27.61%

As of December 31, 2007, PTT's loans and bonds amounting to Baht 44,223 million is guaranteed by the Ministry of Finance.

#### Shareholders' Equity

Total shareholders' equity as of December 31, 2007 were Baht 398,651 million, increased from the end of 2006 by Baht 42,591 million or 12.0%. The increase was due mainly to the unappropriated retained earnings of Baht 68,269 million, resulted from PTT and its subsidiaries' net profit of Baht 97,804 million adjusted with dividend payment to the shareholders in an amount of Baht 29,494 million.

In 2007 there was increase in share capital resulted from the exercise of warrants under Employee Stock Option Program (ESOP) which caused an increase in issued and paid-up share capital in an amount of Baht 124.63 million (12,462,500 shares) and an increase in premium on ordinary shares of Baht 2,303 million.

In 2007 the minority interests decrease by Baht 29,335 million resulted from the change of PTTCH, PPCL, PTTUT and PTTICT's status from PTT's subsidiaries to PTT's associates. Surplus on dilution of investments in subsidiaries and associates increased by Baht 901 million from the shares offering and the exercise of warrants under the Employee Stock Ownership Plan (ESOP) of PTT subsidiaries.

#### Liquidity

In 2007, net increase in cash and cash equivalents of PTT and its subsidiaries was Baht 14,031 million, while cash and cash equivalents at the beginning of the period was Baht 86,806 million adjusted by Cash at ending of period of subsidiaries transformed to associates of Baht 25,879 million, which resulted that cash and cash equivalents at the end of the period was Baht 74,958 million, details of activities are as follows :

#### Amount (Million Baht)

Net cash provided by operating activities	110,143
Net cash used in investing activities	(100,571)
Net cash provided by financing activities	4,383
Effects of exchange rates on cash and cash equivalents	42
Currency translation differences	34

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Net increase in cash and cash equivalents in 2007	14,031
Cash and cash equivalents at beginning of periods	86,806
Cash at ending of period of subsidiaries transformed to associates	(25,879)
Cash and cash equivalents at end of periods	<u>74,958</u>

Net cash provided by operating activities of Baht 110,143 million was derived from net income of Baht 97,804 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 28,450 million, income of minority interests of Baht 15,753 million, amortization of exploration costs of Baht 1,960 million and deferred income taxes of Baht 1,290 million. Adjustments of net income to net cash used by operating activities comprised mainly of gains on disposal of investments of Baht 8,428 million, share of net income from investments under equity method of Baht 31,080 million, gain on foreign exchange of Baht 4,463 million and the increase in working capital of Baht 9,106 million resulted mainly from the increase in Trade accounts payable, Other accounts payable, Income tax payable, Accrued expenses and Other non-current assets while Trade accounts receivable, Other accounts receivable, Inventories, Materials and supplies and Other current assets increased and Advance payment for gas purchased decreased.

Net cash used in investing activities in 2007 was Baht 100,569 million, resulted mainly from the investment activities in property, plant and equipment of Baht 91,394 million, mainly from the investment in PTT's third natural gas pipeline project, Wangnai-Kangkoi gas pipeline system, Sainoi-South Bangkok gas pipeline system in an amount of Baht 23,478 million, PTTEP's investments in oil and gas properties, PTTCH's investments in many projects such as MEG Expansion Project under TOC Glycol Co., Ltd (TOCGC), PTTCH's subsidiary, LLDPE and LDPE project under PTT Polyethylene Co., Ltd (PTTPE), PTTCH's subsidiary, HDPE Expansion under Bangkok Polyethylene Public Company Limited (BPE), PTTCH's subsidiary, and the Central utilities project under PTTUT and the plant construction of PPCL. The Investments in subsidiaries of Baht 10,324 million was the investments in PTTEP, PTTRB, CHPP, PTT INTER, PTTGE, PTTAC and NPTC while the Investment in associates of Baht 17,102 million was mainly the investment in EMG. There was an increase in Current investments of Baht 4,810 million whereas there were the proceeds from disposal of long-term investments of Baht 16,169 million resulted from partial divestment of the investment in PTTCH, TOP, PTTEP, ATC and RRC and dividend received in the total amount of Baht 8,316 million.

Net cash used in financing activities in 2007 was Baht 4,383 million, comprised mainly of Cash received from the issue of ordinary shares and premium on share capital of PTT, PTTEP and PTTCH in an amount of Baht 3,793 million, Cash received from long-term loans of PTT, PTTCH, PPCL and PTTUT in an amount of Baht 9,343 million, Cash received from the issue of bonds in an amount of Baht 45,305 million which consists of PTT's bonds of Bath 24,071 million, PTTEP's bonds of Baht 16,364 million and PTTCH's bond of Baht 4,868 million, the Bank overdrafts and short-term loans from financial institutions increase in an amount of Baht 2,523 million and Cash

received from the issue of notes payable in an amount of Baht 1,500 million while there were Repayment of long-term loans, Redemption of debentures and bonds in the total amount of Baht 21,496 million and Dividends paid in an amount of Baht 36,517 million.

Financial ratios and earnings per share of PTT and its subsidiaries for 2007 and 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	
		2007	2006
<b><u>Liquidity Ratios</u></b>			
Current Ratio	Time	1.29	1.49
Quick Ratio	Time	1.13	1.22
Accounts Receivable Turnover	Time	9.46	11.53
Average Collection Period	Day	38.07	31.22
Inventory Turnover	Time	94.32	55.54
Average Sales Period	Day	3.82	6.48
Accounts Payable Turnover	Time	10.93	14.03
Days Payable	Day	32.94	25.66
Cash Cycle	Day	8.95	12.04
<b><u>Profitability Ratios</u></b>			
Gross Profit Margin	%	9.70	11.65
Net Profit Margin	%	6.33	7.60
Return on Equity	%	25.92	30.13
<b><u>Productivity Ratios</u></b>			
Return on Total Assets	%	11.89	13.63
Return on Fixed Assets	%	39.10	38.53
Assets Turnover	Time	1.88	1.79
<b><u>Financial Ratios</u></b>			
Total Debt to Equity Ratio	Time	1.24	1.12
Interest Coverage Ratio	Time	15.49	14.51
Dividend Payout Ratio	%	33.13	30.86
<b><u>Earnings per share (EPS)</u></b>			
EPS	Baht/share	34.82	34.14

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

Since January 1, 2007, PTT has 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 year ended December 31, 2006 that presented comparatively. This adjustment caused the followings;

#### 2007 performance compared to 2006

Net income in the Company financial statements is not equal to net income in the Consolidated financial statements. In 2007, net income on the Company financial statements was Baht 63,226 million, lower than that of the consolidated financial statements, which was Baht 97,804 million, by Baht 34,577 million, or decreased by Baht 12.31 per share. The net income in 2006 on the Company financial statements was Baht 64,876 million, lower than that of the consolidated financial statements, which was Baht 95,582 million, by Baht 30,706 million, or decreased by Baht 10.97 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 57,427 million in 2007 and Baht 52,538 million in 2006. However, net income in the Company financial statement included dividend income and other incomes in the total amount of Baht 22,849 million in 2007 and Baht 21,832 million in 2006.

Nevertheless, 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 2008

#### World market Outlook

According to the International Monetary Fund (IMF), the global economy is expected to grow at 4.1% YoY, or declined by 0.8% from the previous year and the US economy would slow down further for another year as a result of the problems in the subprime market and the recession of property market. These problems lead to a declining demand in the US, which would affect the export sector and the economic expansion of the European, Japanese and the Emerging countries. In addition, the higher of the world oil prices, the fluctuated and high commodities prices, the increase in the wages and the raw material in the production of goods, put more pressure on the inflation which affects to the growth of global economy. The US dollar is expected to further depreciate as the US economy decelerated. It is expected that the US Federal Reserve maintains its accommodating stance on monetary policy that the Policy Interest Rate has been cut twice in January 2008 by 125 basis points to 3.0% due

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to the concern of US recession and global financial market turbulence. Whereas potential high growth countries such as China and India tend to tighten their monetary policy to keep inflation within the target range and slow down overheated economy. The expectations of a weaker dollar and further rates cut will result in capital outflow from the US to the other financial market.

Despite the fact that the demand and supply balance of oil products in 2008 is at the level of 86.4 million barrels per day. The global oil demand is expected to increase by 1.6 million barrels per day, which to be supplied by the increase of supply from the oil producing countries besides the OPEC by about 1.0 million barrels per day together with an additional 0.8-1.0 million barrels per day from the OPEC countries. The anxiety in supply resulted from the increase in high level of production cost, the lack of skillful labor in Petroleum exploration and production business, the nationalism among oil producing countries causing the delay and insufficient development of global source of energy including the domestic political factors within the oil producing countries in the Middle East such as Nigeria, Iraq, and Iran, and the speculative activities in the futures oil market among the global turbulence of financial and equity market, are factors to keep the Dubai crude oil at the high level of 75-85 US dollar per barrel but to be soften provided that global economy and/or US economy has been slow down more than the expectation or in the recession which will also subsequently affect the refinery margin and price of refined-oil product. In addition, the prices of petrochemical products remain sustain at high level due to the delay of projects in the Middle East and Asian countries despite the down cycle of petrochemical industry. The lowest of this petrochemical industry life cycle is expected to be in the year 2010-2011.,

#### **Thailand market Outlook**

The global economic recession, the trend of Baht strengthen, the high oil price and the acceleration of inflation rate, are the negative factors that affects Thai economic expansion in 2008. Whereas the continued strengthen of the consumer confidence, the balance deficit of monetary policy for another year to stimulate its economy, an acceleration of government's fiscal spending in the infrastructure will support the expansion of Thai economy in the year 2008 and will balance the Thai economy to self sustain instead of depending merely on exports as before. Considering the outlook for both domestic demand and external demand, the Thai economy would grow in 2008 at around 4.5-5.5%. The refined-oil product consumption is expected to grow at the rate of 0.5%-1.5%. The natural gas consumption grows by 12%-14% due to the increase usage in the transportation sector, as a substitution of fuel oil for electricity generation and industrial sector. For the demand of petrochemical products, it is expected to grow by 6.0%-7.5%.

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