MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades PTT to Baa1; outlook stable

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Hong Kong, February 21, 2011 -- Moody's Investors Service has today downgraded to Baa1 from A3 PTT Public Company Ltd's (PTT) issuer and foreign currency bond ratings.

The ratings outlook is stable. This concludes the rating review initiated on November 25, 2010.

RATINGS RATIONALE

"The downgrade reflects a weakened credit profile of PTT's major subsidiary, PTT Exploration and Production Public Company Limited (PTTEP, rating also downgraded to Baa1/stable), and PTT's own planned investments. As a result, PTT's expected profile is no longer commensurate with its previous A3 rating," says Renee Lam, a Moody's Vice President and Senior Analyst.

"PTT's business risk is also elevated by its increased focus on international operations and new businesses potentially through acquisitions," adds Lam.

"PTT operates on a smaller scale when compared to its international, integrated oil & gas peers, and its conservative use of debt has been a major factor supporting its previous rating. Nonetheless, leverage has increased as there are more debt-funded investments for the group," says Lam.

PTTEP's recent investment in the Kai Kos Dehseh Oil Sands project (KKD project) in Canada has required sizeable upfront capital expenditure, as well as a long investment period of over five years, to ramp up production.

While this new investment could contribute towards significant long-term production growth, as well as assist in business diversity, development risks are high due to cost overruns and delays.

Moody's believes that the debt-funded nature of this investment has aggravated the risk exposure of PTTEP, which accounts for about 50% of PTT's consolidated EBITDA.

PTT's capital expenditure, excluding the investment in the KKD project, is expected to be in the range of THB120-150 billion annually (consolidated) over 2011-2013, which is above its historical levels of THB50-140 billion in 2008-2010.

Apart from upstream E&P investments by PTTEP, these capex also include PTT's own incremental investments in the gas business and international, new assets such as coal mining.

PTTEP's debt-financed purchases and PTT's own investments translate into high consolidated debt/proved reserves for PTT, projected at over USD13/boe in the next three years, from an estimated average of less than USD10/boe in 2008-2010. This is higher than the single-digit debt/proved reserves at most of its Baa-rated integrated oil & gas industry peers.

PTT's stable monopoly on gas transmission and distribution in Thailand accounts for about 30% of its EBITDA and continues to support its lowered standalone Baa2 rating.

PTT's final Baa1 rating incorporates the credit support that Moody's believes the Thai government (Baa1/stable) could provide -- under the Joint Default Analysis approach applied to government-related issuers -- in view of its 67% stake in the company and PTT's strategic importance to the country. This results in one-notch uplift to the final Baa1 rating.

The stable ratings outlook reflects the stable outlook of Thailand's sovereign rating. It also assumes that PTT will maintain a steady financial risk profile as it pursues further growth.

Near-term upward rating pressure is limited given PTT's relatively high leverage metrics compared to its peers, and the low likelihood of de-leveraging, in terms of debt/reserves or debt/production, given KKD's investment phase.

Over time, positive rating pressure would emerge if PTT lowers its debt leverage, due to 1) successful project development at PTTEP leading to reserves additions and production growth, 2) strengthening cash flow from PTT's gas business, or 3) significant growth in contribution from PTT's non-traditional investments.

Upward rating pressure would also emerge if Thailand's sovereign rating is upgraded.

Downward rating pressure could emerge if PTT's financial leverage continues to worsen. This could be a result of 1) PTT or PTTEP facing major disappointments in implementing its expansion plans; 2) material downturns in the energy sectors; 3) PTT or PTTEP funds its investments more aggressively with debt than currently expected; 4) PTT provides financial support to its associates beyond levels determined by its pro-rata ownership stakes; or 5) PTT engages in aggressive shareholder return initiatives.

PTT's ratings could experience downward pressure if Thailand's sovereign ratings are downgraded, or if PTT's support from the Thai government is reduced.

Future acquisitions at PTT or PTTEP, if supported primarily by debt, could put pressure on the rating. Moody's will evaluate the impact of such transactions on PTT as they occur.

The last rating action on PTT was taken on November 25, 2010 when Moody's placed the company on review for possible downgrade.

The principal methodology used in rating PTT was Moody's "Global Integrated Oil & Gas Industry" published in November 2009.

PTT is a fully integrated oil, gas and petrochemicals company in Thailand and is 51.36% directly owned by Thailand's Ministry of Finance with a further 15.33% held by Vayupak Mutual (government-invested funds).

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

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Hong Kong
Renee Lam
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Hong Kong
Gary Lau
MD - Corporate Finance
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077