

Connected Transaction

Transactions from Sale and Purchase Agreements

(1) Connected transaction between PTT and State-Owned Enterprises

Type of Transaction

According to the government policy, a resolution of the Cabinet on June 15, 1999 designated that for all government agencies and state enterprises wishing to purchase more than 10,000 litres of fuel or more, must purchase fuel from PTT alone. PTT has, accordingly, sold fuel to the state enterprises e.g. Electricity Generating Authority of Thailand, the Bangkok Mass Transit Authority, and the State Railways of Thailand. Should any agency fail to make payment for fuel, PTT shall be liable to charge interest on the sum unpaid.

(2) Connected transaction between PTT and PTT Exploration and Production Public Co., Ltd. (PTTEP), a subsidiary of PTT

Type of Transaction

PTT has entered into a long term agreement to sell and purchase crude oil, natural gas, liquefied petroleum gas (cooking gas), condensate, and other petroleum products from PTTEP. The agreements take effect immediately upon PTTEP's production of any of these. This contract has been in effect to date, and will continue to cover any quantity of products delivered until the expiry of conditions for production. PTTEP presently sells about 95% of its output to PTT.

(3) Transactions between PTT and associated refineries, i.e. Thai Oil Co., Ltd. (TOCL), Rayong Refinery Co., Ltd. (RRC), Star Petroleum Refining Co., Ltd. (SPRC), and Bangchak Petroleum Public Co., Ltd. (BCP)

Type of Transaction

PTT has entered into feedstock supply and product offtake agreements with associated refineries, usually for an amount of the production capacity proportionate to our shares ownership in each refinery. The nature of each agreement may be summarized as follows:

Summary of Agreement with TOCL

PTT agrees to supply TOCL with crude oil and feedstock and purchase finished oil products from TOCL for 49.99% of the refinery's Production capacity. Either party may terminate the agreement after its 13th year after completion date of debt restructuring, upon one year's prior written notice or by revocation of agreement in the event of a violation by the other party. PTT has also the right to offtake the product more than the allotted 49.99% of output at market prices.

Summary of Agreement with RRC

The shareholders of RRC are required to supply and purchase a minimum of 70% of refinery's production from RRC. Pricing is domestic market based. With 36% equity interest in RRC, PTT has entered into 12-year agreement to purchase products from RRC commencing from the production start-up, after which the contract remains in effect unless prior notice is given.

Summary of Agreement with SPRC

With a 36% equity interest in SPRC, PTT agrees to supply crude oil and purchase products from Star Refinery not less than 36% of 88,200 barrels per day, at domestic market prices. PTT and Caltex Trading and Transport Corporation, the refinery's controlling shareholders, have first rights of purchase of any output in excess of the above-mentioned amount, at domestic market prices, prior to offering to third parties.

(4) Transactions between PTT and associated petrochemical companies

Type of Transaction and Summary of Agreement with Thai Olefins Co., Ltd. (TOC)

PTT has entered into an agreement to supply feedstock to TOC i.e. natural gasoline for a period of 15 years, from 1995 to 2010; liquefied petroleum gas for a period of 15 years, from 1995 to 2010; and ethane for a period of 4 years from 2000 to 2004, with extensions allowed. PTT also serves as a clearing house. Under the agreement, should any customer fail to fulfil its commitments with TOC, PTT is obliged to take that amount, after which the customers must compensate costs and damages to PTT. The customer must also place a stand-by letter of credit with PTT as a guarantee. PTT receives a marketing fee of Baht 12 million per year from TOC for this service.

Type of Transaction and Summary of Agreement with Aromatics (Thailand) Public Co., Ltd. (ATC)

PTT has entered into a long-term agreement to supply feedstock to ATC; namely, condensate and naphtha. The 15-year agreement takes effect from 1993 to 2008.

Another agreement with ATC is to purchase all its output, stipulating that ATC is to deliver its products directly to customers. With a take-or-pay obligation, PTT guarantees its purchase of a minimum volume of products and as a result, PTT has received a marketing fee of around US\$8-10 million per year.

Type of Transaction and Summary of Agreement with National Petrochemical Public Co., Ltd. (NPC)

PTT has entered into an agreement to supply ethane, propane, and liquefied petroleum gas, to NPC for a period of 12 years, beginning in 1999, the agreement is renewable for up to five years. The price for these feedstock products which reflects sale price of NPC, is calculated on the basis of profit and loss sharing mechanism.

NPC has, moreover, agreed to purchase fuel gas from PTT for electricity generation. The contract, which commenced in 1999, stipulated a delivery volume of 22 MMscfd for the first year, and 33 MMscfd for every year thereafter. The contract has a 20-year duration, and may be extended by another 4 years.

Opinion of the Auditors Regarding Transactions between Related Companies

In the opinion of the auditor, the above connected transactions are under commercial terms and conditions which are not involved in any advantage to either PTT or its subsidiaries, joint ventures, related companies, or shareholders. Insofar, however, as the loans and bonds of PTT are guaranteed by the Ministry of Finance, PTT does have access to loans at more favourable conditions. Pricing between PTT and related companies is also determined by the same factors that govern pricing between them and unrelated companies. Market rates likewise determine the prices paid by PTT to its subsidiaries.

Policy regarding Future Transactions between Related Companies

Future connected transactions between PTT and related companies will remain normal, unexceptional, and give no undue advantage to either PTT or its subsidiaries, joint ventures, related companies, or shareholders. Pricing between PTT and related companies will also be determined by the same factors that govern pricing between them and unrelated companies. Market rates will likewise determine the prices paid by PTT to its subsidiaries.

Disclosure of transactions between related companies will strictly be in compliance with the rules and regulations of the Office of the Securities Exchange Commission and the Stock Exchange of Thailand and the standards for disclosure of information on transactions between related persons or businesses as specified by the Institute of Certified Accountant and Auditors of Thailand.

Note: For details see page 85-87 of the Financial Statements.