



RISK FACTORS

In addition to the usual risks in operating a business, some other risk factors need to be considered in the petroleum and petroleum-related industry.

1. Every Natural Gas Sales Contract Has a Take-or-Pay Condition.

In every natural gas sales contract, there is a minimum quantity that PTT needs to purchase annually. In the event that the PTT cannot take the full amount of the minimum quantity stipulated, the PTT is required to pay for the natural gas not taken for that contracted year. However, PTT is entitled to take the pre-paid gas in subsequent years as a make-up. Consequently, the problems resulting from the requirement may affect the financial situation and the operation of the PTT.

2. Dependence on Primary Customer.

Another risk factor lies in the fact that the PTT distributes most of its natural gas to EGAT, its primary customer. Although the quantity to be purchased and the fine penalties are stated in the contract, problems could occur should the customer was unable to abide by the contract for any reason.

3. Financial Support for Companies in the Group.

The domestic economic recession since 1997 has adversely affected the finance and the business operation of several companies in the group. The PTT has to provide some financial support as obligated in accordance with their agreement. The risk then rises if associated companies fail to repay their debt obligation or have further financial difficulties which may require further assistance.

4. Product Price Fluctuation.

The sale price for the products PTT and its affiliates in both domestic and foreign markets reflect prices in the international market. High fluctuations in the world market certainly effect the PTT's business operations.

5. Currency Exchange Fluctuations.

Most of PTT's income is tied to currency exchange rates and is thus affected by the fluctuations in these rates both directly and indirectly. This is because the natural gas and crude oil prices are pegged to the world market price, quoted in US dollars.

6. Natural Gas Pipelines System Development.

The success of business expansion relies heavily on the expansion of the natural gas pipelines system in order to meet increasing demand. However, certain factors in development projects are not under PTT's control. These include government approval, the study of a project's impact on the environment, the public hearing expense in order to meet the law and more stringent standards as well as relating to environment and safety. All these factors pose a considerable risk that projects may not be implemented as planned.