

# Connected Transactions



PTT's connected transactions resulted from the following contractual agreements:

## **(1) Transactions between PTT and state enterprises** Transaction

By the resolution of the Cabinet dated November 26, 2002, government agencies and state enterprises buying 10,000 liters of fuel and more must do so from either PTT or Bangchak Petroleum Plc only. PTT sold fuels to the following state enterprises: Electricity Generating Authority of Thailand, Bangkok Mass Transit Authority, and State Railway of Thailand. Should a state enterprise owe PTT outstanding payments, the Company can levy interests.

## **(2) Transactions between PTT and subsidiary PTTEP Plc** Transaction

PTTEP and The 4 products that were produced and sold by subsidiaries consist of crude oil, natural gas, LPG, and condensate. For 2008, PTT was the virtual sole buyer of these, accounting for 87.30% by volume. As regards natural gas, the two reached a long-term (25-30 years) deal, stipulating annual contractual quantities. Both companies were engaged in crude oil and condensate agreements, based on the world market prices of crude oil grades with comparable qualities to best reflect the values of its products against the market.

### (3) Transactions between PTT and affiliated refining companies

#### Transaction

PTT signed crude oil and product supply agreements with its affiliated refining companies at rates corresponding to its own equity interests, summarized below.

#### Agreement with Thai Oil Plc (TOP)

PTT contractually takes delivery of crude oil and products equivalent to 49.99% of TOP's refining capacity at market prices. Through a written notice sent at least 12 months in advance, either party may revoke this agreement from the 13<sup>th</sup> year from the date of completion of its refinancing (from April 19, 2013). Alternatively, either party may revoke the contract if it deems the contract violated. Under the contract, PTT may buy more than 49.99% at market prices.

PTT secures crude oil for TOP under the Phet crude sales agreement, in effect since 1985, which spans the life of the field, and that from other domestic sources under one-year agreements with possible annual extensions.

#### Agreement with PTT Aromatics and Refining Plc (PTTAR)

Listed on the Stock Exchange of Thailand (SET) on December 27, 2007, PTTAR resulted from the amalgamation between Aromatics (Thailand) Plc (ATC) and Rayong Refinery Plc (RRC). By law, as of December 31, 2007, PTTAR inherited the properties, liabilities, privileges, obligations, and responsibilities of both companies. The contracts between PTT and PTTAR consisted of the following:

#### Refining business:

PTT secures crude oil for PTTAR under an interim crude supply agreement, effective from February 9, 2006, to the effective termination date of the operating alliance on February 9, 2009, and an 18-year feedstock supply agreement effective from the termination date of the agreement to February 9, 2024. Under these agreements, PTT would secure crude oil and all other feedstock for PTTAR for the grades and volumes needed by PTTAR at market prices.

PTT buys refined products from RRC at no less than 70% of the latter's refined products at domestic market prices under an 18-year agreement from February 9, 2006, beyond which the contract is assumed to remain valid unless otherwise notified in advance.

The Company signed a New Complex Product Offtake Agreement with PTTAR, effective from February 9, 2006, whereby PTT would buy from PTTAR all the products derived from the Upgrading Complex. At least half of these products will be based on domestic market prices.

PTT signed a gas supply agreement with PTTAR for use in refined-product processing and another one for use in power generation, which is due to expire in 2018.

PTT supplies condensate for PTTAR's production process under a 20-year agreement, effective from 1997, whereby the annual volume was 4.6-6.1 million tons/year.

#### Aromatics business:

PTT also signed a 10-year gas supply agreement with PTTAR for use in fueling the latter's aromatics processes. The 10-year agreement to supply natural gas to Aromatics Plant Unit 1 (AR2) is due to expire in June 2015; the agreement to supply the gas to Unit 2 (AR3), in June 2018.

PTT concluded long-term supply agreements for all the core products of PTTAR, which directly supplies such products to customers. These agreements are take-or-pay, whereby PTT guarantees minimum sales volumes for products and obtains marketing fees from PTTAR. Note that these agreements specify the offtake volumes guaranteed by PTT, but not to guarantee distribution for the surplus volumes beyond take-or-pay. PTT has another product distribution agreement with PTTAR, namely that for condensate residue, light naphtha, and LPG, whereby PTTAR would directly supply these to PTT's customers. For the first two products, the agreement covered 15 years, and for LPG, 10 years, effective from 1997 under an evergreen condition after 2007, that is, the agreement would be regarded as automatically extended unless otherwise notified in advance.

### Agreement with Star Petroleum Refining Co., Ltd. (SPRC)

Shareholders of SPRC are required to secure crude oil and take delivery of products from SPRC at no less than 70% of its 126,000-bbl/d capacity (or 88,200 bbl/d) at domestic market prices. For any surplus volume, PTT and Chevron (Thai) Co., Ltd. as shareholders have the first right of refusal to buy at domestic market prices before any sale to a third party.

### Agreement with Bangchak Petroleum Plc (BCP)

PTT secures crude oil for BCP under a feedstock supply agreement, effective May 16, 2006, for a period of 12 years from the commercial operation date of the Product Quality Improvement Project. PTT procures all the crude oil for BCP at market prices.

On May 16, 2003, PTT concluded a 12-year product offtake agreement with BCP, with effect from the commercial operation date of the Product Quality Improvement project, after which PTT would buy at least 30% of BCP's monthly output of gasoline and diesel at market prices.

On February 25, 2008, both companies signed a power purchase agreement, whereby PTT agreed to invest in a steam and electricity plant with 90 tons per hour and 19.7 megawatts in capacity for sale to BCP. This power plant is due for commercial operation in the middle of 2009.

## (4) Transactions between PTT and affiliates in the petrochemical business group

### Transactions and agreement with PTT Chemical Plc (PTTCH)

PTT Chemical resulted from the merger on December 7, 2005 between Thai Olefins Plc (TOC) and National Petrochemical Plc (NPC) under the Public Company Limited Act B.E. 2535 of 1992. The new company assumed all the assets, liabilities, privileges, obligations, and responsibilities of the two, and all contractual obligations binding TOC and NPC with PTT.

PTT secures feedstock for PTTCH's production processes, namely natural gas and LPG under a 15-year agreement, effective from 1995, extendable for five years.

In 1999, ATC transferred to PTT its privileges and obligations under a 15-year light naphtha and raffinate supply agreement with PTTCH.

PTT concluded another supply agreement with PTTCH for feedstock and natural gas, effective from 1999 for 12 years (extendable for five years) for the feedstock, and for 20 years (extendable for four years) for the gas.

In 2001, PTT signed a 15-year ethane supply agreement with PTTCH, effective from August 1, 2005 (extendable for five years).

In 2004, PTT concluded an LPG and NGL supply agreement with PTTCH, whereby PTT would supply an additional 13,000 tons/month of LPG and 380,000-470,000 tons/year of NGL as feedstock for the olefins capacity expansion project managed by PTTCH, which was due to complete the upgrading in 2007.

Also, in 2006, PTT entered into a 15-year ethane feedstock supply agreement with PTT Polyethylene Co., Ltd., a subsidiary of PTTCH, effective from its start-up date projected for the third quarter of 2009 whereby the price of ethane varies with that of film-grade HDPE in Southeast Asian markets.

In 2008, PTT amended its agreement for supplying ethane, propane, and LPG with PTTCH, with effect from August 1, 2009, for a period of 15 years with each extension of five years. Under the agreement, the price structure of the ethane feedstock varies with that of film-grade HDPE in Southeast Asian markets reflecting the entire petrochemical chain and the HDPE market, produced by PTTCH since 2004. Similarly, the price structures of propane and LPG vary with that of film-grade PP.

### Transactions and agreement with HMC Polymers Co., Ltd. (HMC)

PTT concluded a feedstock supply agreement with HMC. A long-term propane feedstock supply agreement spans 15 years from 2009, with five-year extension at a time, under which the price of propane varies with that of PP (film grade) in Southeast Asian markets.

### Transactions and agreement with PTT Asahi Co., Ltd. (PTTAC)

PTT signed a 15-year propane supply agreement with PTTAC for its feedstock, with effect from the plant commissioning date planned for the fourth quarter of 2010, with five-year extension each time. The price structure varies with that of film-grade PP in Southeast Asian markets.

#### Policy on future connected transactions

These will be conducted as part of the normal course of business with no special favors and no transfer of benefits between PTT, its subsidiaries, related associated companies, or shareholders. Pricing will continue to be on an arm's length basis, and the prices of products supplied by PTT's subsidiaries will be market-based.

Disclosure of connected transactions will follow the announcement of the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET), and the accounting standard on disclosure of information on related parties or businesses, announced by the Federation of Accounting Profession.

## Review Business Assets

As of December 31, 2008, the core assets used by PTT and its subsidiaries in conducting their businesses consisted of properties, plants, and equipment with a net value after depreciation and allowance for impairment of Baht 375.755 million and intangible assets with a net value after deduction of accumulated depreciation of Baht 20.481 million. Details appear in the notes to financial statements for PTT and its subsidiaries, year ended December 31, 2008, item 13 (net property, plant and equipment) and item 14 (net intangible assets). These included the land, land rights, pipelines, and associated equipment making up transmission pipeline systems surrendered to the Ministry of Finance in the wake of the Supreme Administrative Court Verdict. (Details appear in Compliance with the Supreme Administrative Court Verdict)