PTTEP 2016 Analyst Meeting

Edited Transcript

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Speakers: Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Khun Montri Rawanchaikul
Executive Vice President, Strategy and Business Development Group

Khun Pannalin Mahawongtikul
Executive Vice President, Finance and Accounting Group

The slides of the presentation, as referenced throughout the transcript, can be found here

PART 1: INTRODUCTION

Moderator

Welcome to PTTEP 2016 Analyst Meeting, featuring the announcement of the Company's operating performance of the year 2016. Before we commence the session, please allow me to introduce the Company's executives who will be giving reports on PTTEP's operating performance today.

1. Dr. Somporn Vongvuthipornchai, President and Chief Executive Officer
2. Mr. Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group
3. Ms. Pannalin Mahawongtikul, Executive Vice President - Finance and Accounting Group

And without further ado, please join me in welcoming Dr. Somporn to begin the presentation.

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

This session marks another occasion that we are gathered here today to get informed of what the Company has been doing and what the directions and initiatives going forward are. Khun Montri will be providing information on industry overview and key achievements in 2016. After that, Khun Pannalin will discuss further on financial performance and I will be giving reports on the Company's growth outlook.

Even though the safety issue is not discussed at the beginning as we always do, I would like to take an opportunity to stress once again that safety, occupational health, environment and security issues are of our core priority and focus.

PART 1: Industry Overview

Khun Montri Rawanchaikul
Executive Vice President,
Strategy and Business Development Group

Slide 3

Oil Prices Outlook for 2017

A sign of recovery but uncertainty persists

With regards to the guideline provided initially by the CEO on the industry outlook on the oil price and the resolution on the production cut from major oil producer, we can roughly speculate potential oil price tendencies going forward in 2017, as seen from the oil price movement during January to February this year which has been quite fluctuating in a rather narrow band. Looking forward, several parties predicted that the oil price will be moved in wider band. However, we are of the view that the oil price range is not going to differ much from current level and would be in the range between 50-60 USD/barrel for 2017.

In this regard, there are some key watching catalysts affecting the oil price movement; the OPEC's agreement to cut production to balance the supply glut situation. To date, such resolution has been achieved by about 90% compliance rate which is cut the production by about 1.1 million barrels per day out of the goal of 1.2 million barrels per day as there are some OPEC countries that have not completely followed. Talking about the action from Non-OPEC side, about half of the agreement has been complied. As a result, we see the oil price has shown a recovery sign and stability.

Another significant factor is the US shale production which is likely to rise following the increase in oil price. There is a tendency that it is going to take a period of time until the rebalance between demand and supply can be achieved. Other factors affecting oil price are, for instance, the inauguration of the new US President which might bring about a different oil production policy and management of international relations. At the same time, we have to watch out for economic growth in countries like China and India which can be an indicator that affects the global oil price. All in all, these are key determinants that we need to keep an eye on for the rest of 2017.

Slide 4

Thailand Economic Forecast

Stable economic growth whilst weakening Thai Baht

For Thailand's economy, the market has forecasted that the domestic growth will be stable and expected the depreciation of Baht currency against US dollar during 2017. The Bank of Thailand has estimated that

Thailand's GDP is going to expand to be around 3.2% in 2017, largely driven by a number of factors, for instance, the government spending plan on infrastructure projects as well as the recovery plan for the tourism industry. All in all, the economic growth in 2017 is not likely to be as noticeable as that of 2016.

The other important determinant is the movement of exchange rate which directly impacts the Company's operations. Despite the appreciation of Baht at the beginning of the year, there is uncertainty around the exchange rate movement; depending on such factors as the potential of interest rates hike by FED and the US's fiscal and monetary policies. Currently, the exchange rate is somewhere around 35.5-36 Baht/USD but there might be a possibility that this is going to change, which we have put in place protocols to cope with such a scenario.

PART 2: 2016 Key Achievements

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Survived through the Downturn and ready to Strike

Strong operational and financial performance amid the oil price crisis

With regards to PTTEP's key achievements in 2016, this graph provides a clear picture of Brent oil price 3 years back. It shows a slump in oil price from 2014 through to 2016 with high volatility. Given times like this, PTTEP has survived through oil price downturns in the past and successfully maintained EBITDA margin at 70% level. The annual operating cash flow remains in the range of 2.3-2.9 billion USD, with solid balance sheet reflecting through cash on hand amounting to 4 billion USD which is ready to support future business growth. Going forward, the Company expects that EBITDA margin for 2017 can be sustained at 70%.

Slide 7

Disciplined Cost Management

Approx. 30% reduction to date on both CAPEX and OPEX

Another key strategy during the low oil price environment is that the Company continues to uphold its cost management effort. In this regard, the Company successfully reduced the expenditure for both CAPEX and OPEX spending since 2014 until 2016. For 2017, we estimate an increase in expenditure spending due to higher investment activities e.g. drilling activities and wellhead platform installation reflecting favorable oil price environment.

Nonetheless, one of PTTEP's key achievements is the significant reduction of unit cost over the past 3 years from 43 USD/barrel of oil equivalent (BOE) in 2014 to 30.5 USD/BOE in 2016. This is somehow a challenging assignment for us to maintain low unit cost level over the next few years; however unit cost level in 2017 is likely to remain unchanged.

There are several factors contributing to the successful cost reduction which are the drilling performance improvement, i.e. planning and design of the wells and improved work processes, leading to the reduction in the development drilling cost per well by 30% over the past 3 years, and it is our aim to sustain at this level, or better. We also reduced 35% of the wellhead platform cost per unit comparing with 2014, mainly driven by the standardization of platform design and cost deflation in the market. In parallel with these, we have exercised our best efforts on a continuous basis to decrease OPEX and G&A expenses which had been cut by 35% in 2016 comparing with 2014. Again, it is our challenge to sustain this achievement going forward in 2017 and beyond.

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Peers Performance Comparison

Beat the industry average

There are a number of attributes that PTTEP can utilize to compare the Company's performance with that of peers; in term of performance, the Company delivered better than industry average for EBITDA margin and see an improvement in Total Return Rate. Also, the Company achieved low operational cost structure for both unit cost and cash cost as per said, the Company successfully brought down 2016 unit cost by 30% comparing to 2014.

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Priority on Safety and Sustainability

Significant cost reduction without compromising on SSHE

We still give first priority on the safety even the operational cost was massively decreased. We continuously maintain high safety standard reflecting through the Company Lost Time Injury Incident Frequency (LTIF) performance in 2016 was ranked in the top quartile of the industry average benchmark. In addition, the Company focuses on the sustainability and one of key achievement is that we have been selected by the DJSI to be listed for three consecutive year, especially for 2016, we also selected to be the leader in the world oil and gas upstream and integrated industry. We take pride in doing what we are currently doing in the best and most effective ways possible, as proven by the Company's performance in 2016.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul
Executive Vice President,
Finance and Accounting Group

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Sales Volume & Unit Costs

Deliver targeted sales volume with leaner cost structure

Sales volume in 2016 decreased only slightly from 2015. The slight decrease was mainly due to the divestment of asset in Oman in 2016 which reduced a certain portion of production and sales volume from Oman. In terms of the selling price, gas selling price in 2016 dropped significantly by 22% from 2015's level, while liquid selling price also dropped from 50 USD/barrel in 2015 to 41 USD/barrel in 2016. This resulted in a drop in average selling price by 22% from 45 USD/BOE in 2015 to 36 USD/BOE in 2016. However, the proportion of volume mix remained pretty much the same; 70% gas and 30% liquid.

In term of the unit cost, our achievement in cost reduction previously discussed by Khun Montri is the key factor enabling us to maintain our EBITDA margin at around 70%. While the average selling price dropped by around 22%, our unit cost also reduced by around 22% owing to our cost reduction campaign; SAFE to be SAVE and SPEND SMART to Business Sustainability. Going by each item, we have been able to reduce cost in every category. Depreciation expenses have decreased from 23 USD/BOE to 18 USD/BOE, mainly due to the booking of additional reserves at the end of 2015 and 2016, and the impairment charge in 2015 of 1,385 million USD. For finance cost, we have executed a bond buy-back around 175 million USD during 2016, which has contributed to a reduction in finance cost. For royalty expenses, it varies with the oil prices. We have also been able to decrease G&A and operating expenses in 2016. Exploration expenses also dropped from 2015's level due to the lower well write-offs. These led to the reduction in the unit cost by 22% and the cash cost from 15.75 to 12.67 USD/BOE.

We have provided guideline that we should be able to maintain the unit cost at around 30-31 USD/BOE. Meanwhile, the selling price depends on the oil prices. From our assumption of Dubai crude price of 49 USD/barrel, the average gas selling price in 2017 should be around 5.3 USD/MMBTU, which is lower than average gas selling price in 2016 of 5.6 USD/MMBTU. To elaborate, the gas selling price had bottomed out in Q4 2016 and would gradually begin to pick up from the beginning of 2017 but the gas selling price would increase slowly due to the lag time in gas price adjustment of 6-12 months.

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Cash Flow Performance

Healthy EBITDA margin with robust liquidity to fund CAPEX and debt service

With the average selling price of around 35.9 USD/BOE in 2016, we were able to generate operating cash flow of 2.3-2.5 billion USD. At the end of 2016, the amount of cash on hands was approximately 4 billion USD. For 2017, if the oil price is around 49-50 USD/barrel, we would be able to generate operating cash flow at similar level as in 2016, while the planned CAPEX investment is lower than 2 billion USD, therefore we would generate certain level of free cash flow resulting in a strong financial position. For cash flow performance in 2016, major sources of funds were from operating cash flow and cash received from financial derivative contract totaling 2.4 billon USD. For uses of funds, the CAPEX investment was not high, mainly due to the rescheduling of certain projects, cost reduction efforts through SAFE to be SAVE program as well as the postponement of some activities.

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Financial Position

Solid balance sheet with $4Bn cash on hand for future growth

With regards to the capital structure, the assets have slightly decreased from 2015's level, mainly due to the depreciation. Meanwhile, the debt to equity ratio has dropped slightly to 0.25x which is below the company's policy level of 0.5x, meaning that the company's financial status is very healthy.

Our debt profile is 100% in the USD currency. The weighted average cost of debt was 4.41%, while the proportion of fixed and floating debt is 80:20 which we consider as an appropriate level. The average loan life is 8.15 years.

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Dividends

Demonstrating our dividend commitment to shareholders

We have proposed the dividend for 2016 at 3.25 Baht per share. We have paid the dividend from the operating performance of 1H 2016 at the rate of 0.75 Baht per share. This remains the dividend for the operating performance of the second half of 2016 for 2.50 Baht per share which would require shareholders' approval. This represents a payout ratio of 98%, based on consideration of a number of factors including liquidity, the amount of cash on hands, absolute figures of dividend, shareholders' expectations as well as benchmarking with peers both domestically and internationally.

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Sales Volume Guidance

Focus area in Thailand and South East Asia

This slide summarizes a sales volume guideline over the next 5 years. Sales volume is going to remain quite stable at around 300-310 thousand BOE per day in 2017-2019, and the sales volume would likely to drop in 2020-2021 due to the maturity of the fields and the conservative assumption that the Bongkot concession would expire in 2022-2023. This sales volume guidance also excludes any M&A or other accretive activities. However, there will be start-ups of 3 key projects; Mozambique LNG, Ubon field, and Algeria HBR in 2021 and beyond, which will be discussed in details further. However, the volume contribution of those 3 projects will materialize after 2021. Lastly, the proportion of product mix between gas and liquid is likely to be 75% and 25% respectively, which is coherent with our policy as gas-weighted that is more environment-friendly source of energy.

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Investment Plan (CAPEX and OPEX)

SPEND SMART through leaner CAPEX and OPEX program

In response to our projected sales volume, the estimated amount of OPEX and CAPEX required over the next 5 years is around 6 billion and 9 billion USD respectively, totaling 15 billion USD. CAPEX has been classified into CAPEX for pre-sanction projects and CAPEX for producing projects, which should be helpful to investors and analysts in making further analysis. It is likely that the CAPEX for producing projects which is mainly maintenance CAPEX would not going to deviate much from the given guideline, unless we can save more costs or delay some activities, while CAPEX for pre-sanction projects should also turn out similarly to this guideline if there is no delay of those 3 pre-sanction projects.

The graph at the bottom illustrates CAPEX breakdown for producing projects. The bar chart suggests that the majority of CAPEX spending would be for projects in Thailand for 4.2 billion USD, followed by projects in Southeast Asia for 1.5 billion USD mainly Myanmar, and the remaining is for the rest of the world.

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Financial Capability and Outlook

Maintain robust liquidity and cost competitive

We should be able to maintain the average sales volume at 312 thousand BOE per day for 2017, with the average sales volume in Q1 2017 of 310 thousand BOE per day, which is slightly lower than the full-year average due to the planned shutdown of certain projects in Q1 2017.

The estimated average gas price in 2017 should be around 5.3 USD/MMBTU, while the average gas price as of Q1 2017 should be around 5.1 USD/MMBTU, which increase slightly from Q4 2016's level. The unit cost should be around 30-31 USD/BOE for the year 2017 and around 31 USD/BOE for Q1 2017 given that there are some planned shutdown activities in Q1 2017. Lastly, the EBITDA margin is likely to remain unchanged at 70% in 2017.

Now, CEO will address further on the progress of the pre-development projects.

PART 4: Growth Outlook

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Growth Driver: Development Projects in Pipeline

Reinforced by more favorable industry outlook and funding capacity

Going forward, the oil price is expected to recover from last year, while LNG is another area that we place a significant focus on, both in terms of competition in the short run and business opportunity in the long run. Speaking of LNG, there might be a considerable amount of supply glut some time prior to 2022-2023, but the demand and supply forecast of LNG in the future are expected to rebalance. Thus, a certain kind of demand glut does exist and we can expect to see new LNG projects coming in during 2022-2023 onwards to fill in the gap and this potentially brings a clearer picture of LNG requirements for the Thai market, which forms a basis for the Company's strategy going forward. With this scenario in mind, there are 3 significant projects that have not been sanctioned; Mozambique Rovuma Offshore Area 1, Ubon field and Algeria HBR. Given the fact that the Mozambique project has continuously been at the center of many parties' attention, the management team has recently led the Board of Directors to visit the project's site to meet with partners and operators in order to follow up with the progress of the project. From this visit, we believe that every party shares the same view to push forward the monetization of this project, which will be beneficial to all stakeholders. In order to sanction this project, there are a few dimensions that we have to pay attention to, for instance, finalization of all the contractual frameworks regulated by the government, which is slightly delayed from the initial timeline. A lot of issues have been granted endorsements, cabinet's approval or chances to provide ratification in the parliament. So far we can feel the sense of urgency from related parties to finalize this issue as it is going to be a critical trigger point for potential buyers as they will expect to see a clear direction and buy-in of the government. At the same time, operators are putting their best efforts to convert Head of Agreement to Gas Sale agreement with several buyers including Thai and Japanese markets, while trying to look for new markets as well. In terms of project financing, several activities have been actively executed, for examples, discussion with ECA and potential lenders. All in all, we will have to closely monitor the progress of this project on a continuous basis.

Another project is Ubon (Contract 4), an oil field which is actually a part of Pailin Project in the Gulf of Thailand that we have been attempting to push forward several activities in order to accelerate commercial operation, with the expected start-up in the year 2021-2022. In this regard, the production capacity is approximately 25,000-30,000 BPD and the Company has 60% interest in the Project.

For Algeria HBR, the Company already notified the Stock Exchange of Thailand of the results of the appraisal campaign in 2016. The appraisal was successful due to a considerably large amount of oil reserve being discovered, thus the Company has been actively trying to accelerate the development plan. The expected start-up of the project is likely to be in 2023, with the total production capacity of 50,000 BPD. What the Company has been doing for this project is to identify ways to accelerate the commercial start-up, for instance, encouraging early production without having to wait for a full-scheme operation. In doing so, the amount of early production might not be fully maximized as we can take this opportunity to study the potential of the wells in greater details before proceeding to full-scheme design of the facility. All in all, these 3 projects are considered to be a key focus of the Company and we are giving our best efforts to finalize different matters in order to materialize and accelerate the development plans and first production as soon as possible.

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Growth Pillars

Well-prepared for sustainable future growth

Apart from the 3 development projects in the portfolio, there is an issue of business growth that we need to emphasize on in order to improve the Company's RP ratio. We have to admit that the RP ratio might be somewhat on the low side especially for the proved reserve which has the RP ratio of 5 years, while that of probable plus proved reserves is approximately 8 years. With this, the Company is looking into possibilities of focusing on both M&A deals and exploration activities in order to increase production and the amount of reserves. Hence, qualified M&A deals are those which are near-producing or producing projects or projects that are in their early stage of production instead of matured ones. Not surprisingly, these projects are normally in their prime stages and therefore prices are likely to be quite high. However, it is our accountability to weigh between potential risks and expected rewards prior to making decisions.

On the other hand, exploration activities are somewhat part of a longer term plan as they are considered very essential for the Company's portfolio. Over the past few years, we have been trying to rebalance exploration projects in the portfolio and found out that there are a lot of high risk high return projects, leading to the adjustment of the portfolio as necessary. Going forward, it is important that we keep our focus and probably increase the number of lower-risk projects, despite lower returns. The key point is that we have to ensure that the success rate is somewhat in an acceptable range.

Our prime focus area both for M&A deals and exploration projects is mostly going to be in Southeast Asia, while at the same time looking into opportunities in other regions such as the Middle East.

Even though the number of exploration activities this year is not very high, we are still actively developing the exploration plan and currently there are exploration activities taking place in Myanmar, specifically the appraisal of both onshore and offshore fields.

Speaking of strategic directions, we have been working in collaboration with PTT all along in order to determine the effective approach to cooperate as well as to identify opportunities to invest in the LNG value chain business. Being able to secure LNG business is somehow beneficial to the Company in various aspects, for instance, it helps with the RP ratio because natural gas fields normally have a rather high RP ratio. Therefore, if we are able to secure M&A deals in LNG projects, the quality of our reserve outlook can largely be improved. Having said that, the Company has been looking out for opportunities to secure LNG business through cooperation with PTT by investing in the upstream (gas fields) and mid-stream (LNG plants) businesses.

Apart from the gas field in Mozambique, we also have a stranded gas resource in Cash-Maple Project in Australia, whereby we are actively trying to identify further development opportunities in order to make it more competitive and assess the potential of commercialization. The appraisal was conducted a few years ago with discovered resources.

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Bongkot Concession Expiry

PTTEP is well-positioned to continue as operator

One of the critical factors determining growth and sustainability of PTTEP is the expiring concession of Bongkot field, whereby the Company plans to participate in the bidding for the new concession. However, the process has currently been delayed by the National Legislative Assembly by 30 days and we have to wait until the Petroleum Act is finalized and legislated. Thus, we still have to keep an eye on the progress of this matter throughout the whole month of March. In this regard, related authorities, i.e. Department of Mineral Fuels and Ministry of Energy, also share the same view to finalize concession bidding by the end of 2017. For the time being, related bodies in the government are preparing the terms of reference (TOR) and relevant rules of law required for the bidding process, as publicized in the newspapers. Once again, I would like to ensure that the Company has been placing significant emphasis on this matter all along.

Slide 22

Global Energy Outlook

Well-positioned strategy to capture global energy trend

We still believe that oil and gas are still going to remain principal sources of energy over the next 20-30 years. Statistically, it has been estimated that oil and gas consumption rate over the next 20 years, compared with consumption of other renewable energy sources such as coal, is going to remain pretty much the same at around 56-57%. Nevertheless, the consumption rate in the future is not likely to increase at the same pace as in the past due to more effective use of energy.

Anyhow, it can be expected that oil consumption will drop while gas will be a more popular alternative in the future. For instance, natural gas demand in 2016 was 22%, but it is likely to increase to 25% in 2035, reflecting the overall increase in natural gas consumption rate worldwide, mainly due to the abundant gas reserve available and its being cleaner energy. Speaking of which, we are fortunate in a way that we have been involved in a lot of natural gas development activities such as Bongkot, Arthit and Zawtika, which is coherent with the Company's direction in uplifting capabilities in the development of natural gas fields.

Nonetheless, given a rather low figure of demand for alternative energy, we are not implying that alternative energy sources are not popular, as it can be noticed that there is going to be quite a big leap in the alternative energy demand over the next 20 years or so. All in all, with the incoming competition in alternative energy or renewable energy businesses, it is highly likely that oil and gas are going to remain as major sources of energy over the next 20-30 years.

Furthermore, technology is also a significant factor enhancing the efficiency of the E&P business. Based on the Company's direction to Refocus, Reset and Renew, it involves the adjustment of strategy in various aspects, for instance, the development of natural gas reserves and encouragement of investment initiatives in the LNG business to prepare for gradually increasing demand for LNG in the future. In summary, we will do our best to work in collaboration with PTT as well as find ways to create synergistic benefits, and push forward the development of Mozambique and Cash Maple projects.

In the meantime, we have been studying on potential opportunities in renewable energy business as well as enhancing technological capabilities in exploration-related activities to help with, for instance, cost reduction, seismic evaluation, data collection and application, in order to improve the probability for success. Another advantage of possessing technological capabilities is the enhancement of recovery rate and possibility to extract oil and gas from the Company's existing resources in the most effective ways. The other key benefit of integrating technology into the operations is that we can take green business to another level, whereby technology helps with environmental conservation, treatment of contaminated water from production and certain types of substances such as carbon dioxide, so that the Company can still comply with the required environmental standard while being able to maintain reasonable costs in doing so.

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Key Takeaways

Strived through the downturn and ready to compete

As mentioned before, our portfolio will be more focused for the purpose of revenue stability, with over 90% of sales volume concentrated in Southeast Asia. Moreover, stable income stream is largely guaranteed as 80% of sales volume is generated from PTT via long-term off-take contracts.

With the 'Save to be Safe' campaign; the Company has been able to reduce unit cost by 30% over the past 3 years, leading to competitive cost base and stronger margins. This achievement has been benchmarked with leaders of the industry, once again confirming our strong financial position. Meanwhile, the Company realizes the importance of finding investment alternatives in order to maximize production and ensure that the RP ratio reflects sustainable operations in the long run. At the moment, the RP ratio is approximately 5 years and it is our aim to lift up this figure to 6 or 7 years, which might take some time to achieve. At the same time, our exploration portfolio is going to help materialize the possibility of having more proved reserves in the future.

In short, in order to ensure business growth, it is critically important that we clarify our ways and approaches to make it happen and we have agreed on the direction to explore opportunities in natural gas and LNG business and make it a priority to commercialize our development projects in the pipeline.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

Could you please discuss on the key milestone for Mozambique Project before FID?

Answer from PTTEP's management

We see a number of significant progresses on the project. In term of regulation, certain contracts have been finalized which allows consortium to comfortably begin predevelopment work such as resettlement plan and basic infrastructure preparation. Based on latest discussion with the Mozambique's government, we believe they are supportive with the commitment to move the project forward. The project is actively working on converting HOA to SPA as well as securing project financing.

Question # 2

What is the break-even oil price of Ubon field and is the IRR of the project from operator point of view different from PTTEP's assumption?

Answer from PTTEP's management

Based on our assessment, while the project is undertaking further study on cost reduction, we believe it is commercial under the current oil price environment. Operator and joint partner will need to align on the key aspects and make the FID decision together.

Question # 3

According to Shell's divestment of their Bongkot stakes to KUFPEC, please share your view on the company's price assumption whether it was too conservative?

Answer from PTTEP's management

The price and hurdle rate assumptions for the investment vary depending on the investment strategy. In order to ensure value-accretive transaction, we believe that the bid we proposed offers a proper value.

Question # 4

Focusing on the investment in gas project in SEA as the Company's strategy for future growth, will there be any further operational risks and difficulty in the region relative to asset in Thailand?

Answer from PTTEP's management

PTTEP is familiar with operating oil and gas business in SEA given our expertise in geology, logistics and business environment as well as the partnership with other regional NOCs. We focus on gas because we believe we have advantage in gas plays in terms of project development and the LNG value chain. We also consider oil if the circumstances warrant it.

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Forward-looking Information

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Petroleum Reserves and Resources Information

In this transcript, the Company discloses petroleum reserves and resources that are not included in the Securities Exchange and Commission of Thailand (SEC) Annual Registration Statement Form 56-1 under "Supplemental Information on Petroleum Exploration and Production Activities". The reserves and resources data contained in this transcript reflects the Company's best estimates of its reserves and resources. While the Company periodically obtains an independent audit of a portion of its proved reserves, no independent qualified reserves evaluator or auditor was involved in the preparation of reserves and resources data disclosed in this transcript. Unless stated otherwise, reserves and resources are stated at the Company's gross basis.

This transcript may contain the terms "proved reserves", "probable reserves", and/or "contingent resources". Unless stated otherwise, the Company adopts similar description as defined by the Society of Petroleum Engineers.

Proved Reserves *- Proved reserves are defined as those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.*

Probable Reserves *- Probable reserves are defined as those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.*

Contingent Resources *- Contingent resources are defined as those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. The reasons for non-commerciality could be economic including market availability, political, environmental, or technological.*