PTTEP Q1 2015 Analyst Meeting

Edited Transcript

Venue: Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand
6 May 2015
15:30 – 17:00 Hours

Speakers: Khun Tevin Vongvanich
President and Chief Executive Officer

Dr. Somporn Vongvuthipornchai
Executive Vice President, Strategy and Business Development Group

Khun Penchun Jarikasem
Executive Vice President, Finance & Accounting Group

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

PART 1: INTRODUCTION

Moderator

Good afternoon and welcome to PTTEP's Analyst Meeting for the first quarter of 2015's operating performance.

Please allow me to introduce the company's executives who will be presenting PTTEP's operating performance.

First, Khun Tevin Vongvanich, President and Chief Executive Officer

Second, Dr. Somporn Vongvutthipornchai, Executive Vice President - Strategy and Business Development Group

Third, Khun Penchun Jarikasem, Executive Vice President - Finance and Accounting Group.

Without further ado, I would like to invite Mr. Tevin to begin the presentation.

PART 2: SAFETY PERFORMANCE

Khun Tevin Vongvanich
President and Chief Executive Officer

Slide 3

Good afternoon everyone. Similar to our previous meeting, we will begin the session with our safety performance.

During the past few years, we were able to consistently outperform the industry's safety records. This is a testimony for PTTEP to place utmost importance on the well-being of our employees and stakeholders. Our target is to have no safety incidents, and become a company where nobody gets hurts, as well as a role model for other oil and gas companies. Of course this is easier said than done as each year we see a number of incidents that resulted in the injuries of our employees and contractors.

We spent time to investigate those incidents and reinforce our safety procedure as to prevent reoccurrence. As a result, our lost time injury frequency (LTIF) has gradually improved to be amongst the industry's pacesetter.

We will move to next section, where Dr. Somporn will take you through the industry update.

PART 3: INDUSTRY UPDATE

Dr. Somporn Vongvuthipornchai
Executive Vice President
Strategy and Business Development Group

Good afternoon everyone. Firstly, I would like to begin our discussion today talking about the oil price.

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The last time we met, the oil price was around 45-50 USD/BBL in January and February. Average Brent crude oil price during Q1 was approximately 54 USD/BBL, while Dubai crude oil price averaged around 52 USD/BBL. If you recall the oil price environment during Q1, we had a lot of crude supply coming into the market from US Tight Oil and Shale Oil projects, while Saudi Arabia pushed on with production and OPEC refused to reduce production quotas

PART 3: INDUSTRY UPDATE (continued)

These factors resulted in excess crude supply of approximately 1.5-1.6 million barrels per day, and a corresponding increase in stocks of oil inventory, all of which exerted downward pressure on oil prices. At the same time, we saw industry wide effort, which continues today, to reduce costs such as CAPEX and OPEX, as well as unnecessary activities.

Going forward in Q2, we believe that the 1.5-1.6 million barrels per day oversupply conditions will persist. Nonetheless, we expect supply and demand to begin balancing during the second half of 2015. Other factors that could exert downward pressure on prices include potential Iranian oil exports if practical resolutions can be reached between Iran and the super powers with regards to Iran's nuclear program. Additionally, Iran also has an abundance of oil stocks ready for exports. On the other hand, bullish factors for oil prices come from US oil production. Production rates from OPEC and Saudi Arabia continue to increase so we will have to wait and see OPEC's decision during their meeting on 6 June, 2015. However, based of Kuwait's Oil Minister, the market shouldn't be expecting significant changes to their current stance. Conversely, US oil production, particularly in the shale oil/gas and tight oil space, has recently shown signs of slowing down, and oil stocks in certain locations such as Cushing, which is a key trading hub in the Midwest, are showing a decline. These factors will be bullish for oil prices and will be monitored closely.

Normally, it is not unusual to expect a situation of excess supply in Q2, based on statistical records. This is due to seasonal maintenance of oil refineries during Q2. However, we have not yet seen bearish price movement during April and May. On the contrary, oil prices have risen to 66-67 USD/BBL for Brent, and 65 USD/BBL for Dubai. Crude oil prices during the rest of Q2 will be followed to see whether any signs of price reductions emerge. Nonetheless, many industry's forecasts suggest that the oil prices will increase during the second half of the year, and Bloomberg Consensus suggests an average Brent oil price of 63 USD/BBL for the full year.

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With regards to the industry response to lower oil prices, we continue to see a similar trend with the previous quarter. Construction and well drilling activities have decreased. This is apparent in the lower utilization rates of drilling rigs such as jack-ups, and has subsequently resulted in lower day-rates, evident in the recent rig contracts awarded. All companies are putting effort to reduce CAPEX and OPEX. Service companies suffer from the direct impact of lower activity, and we've seen major service contractors begin reducing headcount. Meanwhile many other companies like Total, Statoil, and including ourselves, have launched cost-savings initiatives. For PTTEP, we call the initiative "SAVE to be SAFE" and we apply the concepts of "Reduce, Remove, and Reschedule."

Apart from cost reduction schemes, we are seeing the industry respond with portfolio management activities. These include programs to reduce exploration activity, divest non-core assets, and delay certain non-strategic projects. Renegotiation of service contracts is also another common industry response, which PTTEP also partakes.

PART 3: INDUSTRY UPDATE (continued)

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With regards to M&A transactions, the graph on the left shows M&A transaction value in USD, and the graph on the right shows M&A transaction count. The key message here is that M&A has decreased in Q1 on both measures, which is possibly caused by the mismatch in price perceptions and forecasts between buyers and sellers, resulting in fewer agreements and fewer deals. More corporate M&A transactions are expected given the more suppressed share price publicy traded in the market. A case in point is Shell's acquisition of BG Group, which was announced in Q2. Another point that I would like to highlight is the decline in the number of upstream M&A deals in Southeast Asia, which poses a challenge for PTTEP because it is a core region for our growth, but deals are scarce and will require increased effort.

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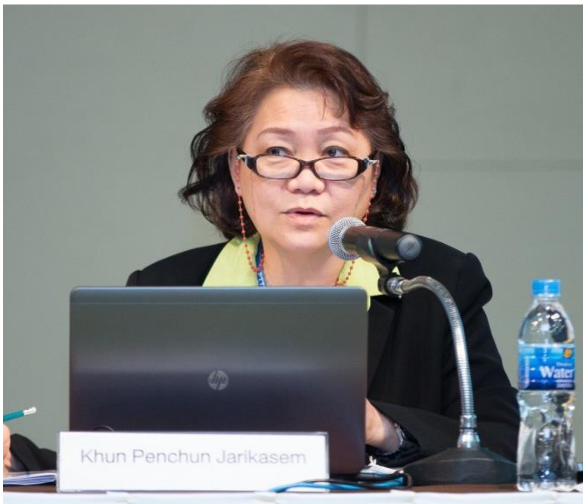
The last slide elaborates on the situation in Thailand. The graph on the left shows monthly gas consumption rates in Thailand by year. Statistics for the first two months of 2015 indicate growing gas consumption rates, and if you follow the news, electricity usage (which uses gas) is said to have reached record highs in March and April. However, when viewing gas consumption rates from the perspective of its sources which comprises domestic production, Myanmar imports and LNG imports, you will notice that the proportion of gas consumption from domestic production has decreased, while the proportion from Myanmar and LNG imports has increased. This is also a result of the contribution from PTTEP's Zawtika project.

In terms of energy reform, we will be monitoring the resumption of the 21st Bidding round, which is expected in early June 2015. Additionally, and related to the bidding round, is the public hearing on 7 May 2015 regarding the enforcement of the Petroleum Act and the Petroleum Income Tax Act (PITA), where the public and stakeholders will be able to voice their views on the issue. Conclusions from the session will be passed on to the National Legislative Assembly and to the Government for consideration and application to the upcoming bidding round and future E&P license in the country.

These are all the updates for the moment. Let's stay tuned for results of the public hearing and progress on the bidding round.

I believe this concludes the industry update. Khun Penchun will now guide you through the company's financial results.

PART 4: FINANCIAL PERFORMANCE



Khun Penchun Jarikasem
Executive Vice President
Finance and Accounting Group

Good afternoon.

The next session is the update on Q1 2015's financial results of PTTEP. Actually, we had already held a conference call discussing on our financial performance for Q1 2015.

Today I am going to recap once again. Understand that many people may find our performance in Q1 2015 rather positively surprising than expected.

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Our sales volume in Q1 2015 stood at 327 KBOED, which is relatively higher approximately 10% than Q1 2014 YoY, due to the full-quarter sale of the Zawtika Project, the acquisition of Hess Thailand which is the additional 35 % and 15% stakes in Sinphuhorm and Pailin fields respectively. However, compared to Q4 2014, sales volume has decreased approximately 6%, mainly from the expected lower nominations from PTT and planned maintenance shutdown for Contract 4 project together with lower load of shipment (3 loads) from the Montara field in Q1 2015. Nonetheless, we are quite confident that we will be able to secure a higher sales volume for the whole year 2015 compared to 2014, which was 322 KBOED.

In terms of price, our weighted average selling price (ASP) decreased by 14%, compared to Q4 2014. The ASP stood at 56.54 USD/BOE and 48.74 USD/BOE in Q4 2014 and Q1 2015 respectively. While falling oil price clearly has an impact on our revenue performance; the extent of impact realized during Q1 has been alleviated by the nature of pricing of our nature gas which makes up around 70 % of our product.

Moving over to the unit cost, Q1 2015's unit cost stood at 40.19 USD/BOE decreased by 14% QoQ, while that of Q4 2014 stood at almost 47 USD/BOE. The higher costs in Q4 2014 mainly came from the dry well exploration expenses and general and administrative expenses (G&A), of which most of it has been paid for donation and cost allocation adjustment in Q4. Generally, G&A in this quarter returns to a similar level seen in Q1 2014. For depreciation, depletion and amortization expenses (DD&A) constitute the major costs standing at 24.73 USD/BOE.

With all of these being mentioned, PTTEP's Net Income totaled 264 million USD for the first quarter of 2015, an increase of more than 100% versus the previous quarter as a result of impairment charge taken in Q4 2014 as well as lower well write-off and income tax expenses.

PART 4: FINANCIAL PERFORMANCE (continued)

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Let's move to our cash flow performance in Q1 2015. Our operating cash flow in Q1 2015 has been around 1 billion USD. If we consider the historical data, we usually have the highest amount of cash on hand in Q1. Generally, in Q2, we expect to see cash out flows for tax and dividend payments; this year we anticipate a total of approximately 1 billion USD.

Based on our latest estimated, operating cash flow in 2015 may come in slightly above 3 billion USD, which should be sufficient to cover our capital expenditures (CAPEX) of around 3 billion. Note that this amount of CAPEX has not included the cost optimization program that we are undertaken.

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For PTTEP's capital structures in Q1 2015, our asset portions is higher in line with our operation performance, our cash 23 million USD higher in Q1 2015. In term of Debt to equity ratio (D/E) also remains healthy at 0.33; and outstanding cash stood at almost 4 billion USD. Taking away provisions for tax and dividend payment expected in Q2 and Q4, we would be left with the remaining disposable cash of around 2 billion USD which could be invested in opportunity such as acquisition of businesses or any other initiatives. For our debt profile has the average loan life of 6.83 years and average interest rate of approximately 4%.

Here is a summary of the Company's financial performance in Q1 2015 which already discussed in detail in conference call earlier. However, I would like to explain on tax item again for more understanding. For lower effective tax rates, of which several figures have been adjusted, particularly from dramatic decreased in net profit margin on sale revenue. In the past, major part of PTTEP sale revenue have been generated from the Gulf of Thailand, from Thailand I concession area where effective tax rate is 50% (PITA) on earnings before tax and royalty rate is 12.5 % on sale revenue ,then be deducted from income tax (tax-credited) . At the time, the actual effective tax rate stood at 37-38%.

However in Q1 2015, due to the reduction of profit margins generated from the Gulf of Thailand and also lower proportion of sales revenue generated from the Gulf of Thailand, such lower earnings are still being taxed at 50 % and royalty expenses are still tax-credited, thus the effective tax rate will subsequently be significant lower. Apart from this, we also have other adjustment items such as difference of accounting standard and tax regulations also difference on functional currency for tax and accounting purpose.

This concludes my quick recap of PTTEP's key financial performance. Khun Tevin will now share the part concerning company's outlook in 2015.

PART 5: COMPANY OUTLOOK

Khun Tevin Vongvanich
President and Chief Executive Officer

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Let's quickly summarize what to expect for the remainder of 2015.

If you recall our year-end analyst meeting, we have a couple of near-term priorities that we aim to achieve this year. First is on sales volume growth, which at the beginning of the year is expected to be approximately 6% in 2015 as a result of full-year Zawtika production, full-year contribution of Hess assets in Thailand and the start-up of Algeria Bir Seba in the second half of the year. After taking into consideration the domestic gas demand uncertainty, primarily driven by the lower-than-expected economic growth, we are slightly more cautious about our sales volume growth forecast. Hence, we give ourselves a growth band of 3-6% to incorporate this uncertainty.

The other near-term priority is the cost savings initiatives through our "SAVE to be SAFE" program. First and foremost, we have revisited our exploration program and one of the things we did was to reduce our exposure to potentially high risk and high cost wells.

We are also evaluating several exploration blocks with respective to their relinquishment strategies, following the results of preliminary surveys. After evaluating our drilling candidates, our focus will primarily be in Southeast Asia, particularly in Thailand and Myanmar, where our current production base is and where the risk is relatively lower than other areas.

At the same time, we are placing the effort to optimize investment and operating costs. These include the standardization and design of wells and facilities, as well as renegotiate terms with contractors for suit the current oil price environment. Additional measures are taken to further optimize our supply chain management system, as well as lowering our business support costs.

As such, our cost reduction target in 2015 currently stands at no less than 10%. Bear in mind that this is a rolling target, which we continue to assemble and refine not only to determine the short-term target but also to assess the impact to our production, reserves and cost structure in the longer term. Based on the OPEX in the first quarter, we have seen our operating costs lowered compared to the same period last year but recognized that this can be driven by various factors. We hope to be able to gauge more clearly the result of our cost reduction efforts later in the year.

PART 5: COMPANY OUTLOOK (continued)

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With our focus firmly on the two objectives as just mentioned, here is a quick glance on some of the key figures that you may find interesting for your analysis. Back when we first announced our five-year investment plan, our Dubai oil price assumption was around 70 USD/BBL. Based on the average price for the first quarter and the current consensus, we have toned down our oil price assumption to around 50 USD/BBL. Based on the new assumption, we forecasted our gas price to land in the region of 7.2 USD/MMBTU, roughly 10% lower than last year. Our gas-to-liquid mix is expected to remain dominantly gas-based, which makes up 70% of the volumes. Despite the downturn in our average selling price, our cash margin remains strong with our EBITDA margin above 60%. Notwithstanding our operating performance forecast, we are actively progressing on the exploration front in Myanmar, along with the ongoing appraisal campaign in Algeria.

Now let's take a look at some of the highlights beyond this year. We have a handful of projects that we need to assess and finalize the development plan over the next few years, which, once they achieve final investment decisions (FID), can convert 2C resources into 2P reserves. Closest to our visibility are the Ubon field, which is an oil field with associated gas in the Contract 4 project, and the Mozambique Rovuma Offshore Area 1 project, which we acquired a couple of years ago. Both projects are progressing as planned and we are working towards finalizing the development plan by the end of this year or early next year.

We have another set of potential FID candidates, namely the Algeria Hassi Bir Rakaiz project and the Myanmar M3 project, the development plan of which are subject to the result of the appraisal program. It also depends on how much capital is needed to develop the project under the relevant price environment. Another prospect is the Mariana Oil Sands project, albeit subject to several external factors. For instance, in addition to evaluating different development alternatives, we are monitoring the progress of the North American pipeline projects, particularly the Keystone XL and the Northern Gateway, which will have an impact on the economic potential of the oil sands project. By 2017, we should have clarity on the development decisions of the aforementioned projects.

That concludes the main presentation materials. Before we proceed to the Q&A session, I want to emphasize that we are currently in the process of redefining our strategic direction, which will shape our decisions to these projects. One of the key drivers to this exercise is the input from our stakeholders and this includes analysts and investors. We are open to receive your thoughts and comments to how we can create value from our strategy going forward.

PART 6: QUESTIONS & ANSWERS (Q&A)

Question # 1

What drives the 3% change in sales volume growth (from 6% to 3-6%)?

Answer from PTTEP Management

The reduced sales volume target from 6% to 3%-6% is primarily because of Thai gas demand which may not grow as much as initially anticipated due to the slower-than-expected economic recovery in Thailand. On the supply side, apart from the current domestic gas production and the start-up of Zawtika, there is also contracted volume from Qatar LNG into the supply mix. Hence, in certain periods and for some of the gas fields, PTT may nominate at DCQ level or slightly lower as allowable under the gas sales agreement as opposed to nominations above DCQ in the past.

Question # 2

How much CAPEX reduction is targeted beyond 2015?

Answer from PTTEP Management

We are currently reviewing the long-term cost savings plan and should have better clarity in the next few months. Some of initiatives we are undertaking would have greater impact in the later years. For instance, initiatives such as rig contract renegotiations and rig sharing between fields did not significantly reduce expenditure in 2015, but we are likely to see larger effects in the years beyond.

PART 6: QUESTIONS & ANSWERS (Q&A) (continued)

Question # 3

How has the global oil and LNG prices affect the development plan for PTTEP's key projects, such as Myanmar M3, Algeria HBR, Canadian oil sands and Cash/Maple?

Answer from PTTEP Management

For Myanmar M3 and Algeria HBR, the development plan is subject to the result of appraisal program and cost structure considering the effect that low oil price may have on industry cost standard. As for oil sands, we still have a few years to monitor the development of the oil sands market, such as oil price and the progress of Keystone XL and Northern Gateway in North America, before finalizing the development plan. The same wait-and-see approach goes for Cash/Maple, which we are monitoring the LNG market condition following the start-up of from QCLNG and PNG LNG projects.

Question # 4

Is the 21st bidding round still on? Which fiscal regime will be applied and, if the concession system is not used, how long will it take the change to become effective?

Answer from PTTEP Management

The objective of the 21st bidding round is the continuity of Thailand's exploration and production activities such that we do not run into the risk of energy disruption. We, as an operator, are open to any fiscal regime and we believe it is important to have a clear implementation plan to support any new fiscal regimes.

Question # 5

What is the government's direction on the expiring concessions?

Answer from PTTEP Management

We believe that the government understands the importance on having a final decision over the expiring concessions by no later than next year. The government has to decide the course of action that 1.) ensures continuity of petroleum exploration and production to avoid supply disruption and 2.) the benefits of the country whilst maintain attractive terms to E&P companies to continue their investments in Thailand.

Should you have any questions, please contact the Investor Relations team at:

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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.*