PTTEP YE 2014 Analyst Meeting

Edited Transcript

Venue: Synergy Hall 6th Fl., Energy Complex Bldg. C, Bangkok, Thailand
February 18, 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

Ladies and gentlemen, welcome to PTTEP's analyst meeting for the 2014 year-end performance.

Before we start, I would like introduce and invite the management team on stage. Please welcome

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 and Accounting Group.

PART 2: SUSTAINABLE DEVELOPMENT HIGHLIGHTS

Khun Tevin Vongvanich
President and Chief Executive Officer

Good afternoon and welcome all analysts and attendees to PTTEP's 2014 year-end performance review.

The presentation today will be slightly longer than usual as we will recap the entire 2014 results and the outlook for 2015. Joining me today are Dr. Somporn, who took over from Khun Asdakorn as the Head of Strategy and Business Development and will take you through the industry section, and Khun Penchun, who will recap the financial performance. I will take you through the 2014 achievements and 2015 outlook, but first we will begin with highlights to our sustainable development.

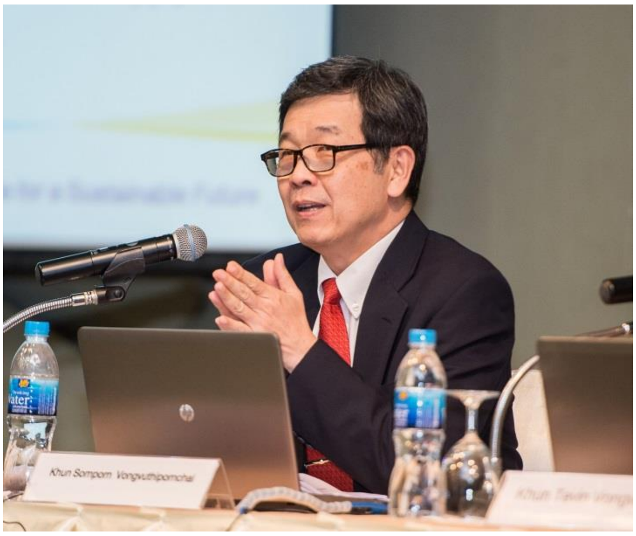
Slide 3

2014 was a landmark year for PTTEP as we proudly became listed on the Dow Jones Sustainability Index (DJSI). Of approximately 100 global companies listed on the DJSI, we were one of the 14 companies from the oil & gas sector. A number of PTT group companies were also listed on the index, signifying the group's dedication and commitment to business integrity, social and environmental well-being. Our emphasis on safety as a license to operate is reflected by the constantly improving safety performance, which have outperformed the industry benchmark since 2011. Our aspiration is to have no incidents to our people and contractors such that we have safe and reliable operations wherever we are present.

The next section will be on the industry, which I will hand over to Dr. Somporn.

PART 3: 2014 INDUSTRY HIGHLIGHTS

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



Good afternoon everyone. Let's begin with the view on oil price.

Slide 5

The first half of 2014 was relatively stable, with oil prices maintained above 100 USD/BBL level for most of the time. By the second half of the year, we begin to witness the drop in oil price to around 50% of its first half price level by December. The main driver was the oversupply of oil market spurred by U.S. shale oil production, which climbed to record level of 4 million barrels per day (MBPD) or more than 4 times the production level 5 years ago.

The situation was exacerbated by OPEC's announcement to not curb its own production to keep its market share. Weak demand from slow economic growth in Europe, Japan and China did not alleviate the situation and resulted in oil supply to exceed demand by approximately 1 MBPD. As we head into 2015, despite a 15-20% reduction in number of onshore rigs in North America, oil production continues to rise, albeit at a slower pace. We expect to see demand and supply to start rebalancing by 2H 2015.

The analysts' consensus in February on Brent oil price in 2015 is around 63 USD/BBL. The sentiment is slightly improved from the January consensus of around 56 USD/BBL and the current price at around 60 USD/BBL supports the sentiment. The oil price will continue to be volatile for 1H 2015 before seeing gradual recovery in 2H 2015 as the oil market begins to reshape itself.

Slide 6

Over on the cost side, the top chart illustrates the correlation between the Brent oil price, the industry CAPEX (UCCI) and OPEX (UOCI) indices. As oil price declined in 2014, the UCCI started to decline with some lag time and different magnitude, which is a similar trend we observed in 2008-2009. The bottom half shows the offshore rig rate and utilization rate, which although the average rates remain relatively stable to the oil price drop, the rates for newly contracted jack-up and semi-sub rigs have started to drop since the end of last year. In a similar fashion to falling rig rates, oilfield service providers will also be under pressure to lower their costs. This will also be a good opportunity for us to review costs along our supply chain.

Slide 7

This section highlights key M&A activities in 2014, which was slightly more active than in 2013. Unconventional asset transactions, especially in North America, dominated the headline at over 40% of the total M&A value, whereas transactions elsewhere in other types of assets continued at modest levels. Towards the end of 2014 and at the beginning of 2015, we have seen the M&A activity dropped in the low oil price environment. This demonstrates the widened perception difference between the buyers, who want to acquire assets at attractive valuation, and the sellers, who are waiting to divest at higher valuation when the oil price recovers.

PART 3: 2014 INDUSTRY HIGHLIGHTS (continued)

Slide 8

Now let's take a look at Thailand economy and gas demand. In 2014, the country's GDP growth stood at 0.7% and expects to see approximately 4% growth in 2015. Gas demand is expected to grow by 2-3% in 2015. The impending topics surrounding Thailand's energy reform is expected to take shape, if not conclude, during 2015.

First and foremost, the announcement of the 21st exploration bidding round will be deferred from February to March. There will be a debate forum between the government representatives and the opposition parties this coming Friday, which we hope will bring about a fair conclusion and move forward with the bidding round.

Secondly, the government is expected to make progress on the framework around the expiring concessions within this year. This will be crucial to the security and sustainability of the gas supply to the Thai market. The other consideration by the government is the overlapping claim area between Thailand and Cambodia, which inter-government discussion has been resumed.

This concludes the industry section. I will hand the session over to Khun Tevin for the following section.

PART 4: 2014 KEY ACHIEVEMENTS

Khun Tevin Vongvanich, President and Chief Executive Officer

Thank you Dr. Somporn.

Slide 10

2014 was, overall, a successful year for PTTEP in terms of delivering solid growth, continuous exploration progress, actively managing our portfolio for short and long terms, and strengthening our financial position. To begin with, we were able to achieve stable production in Thailand to support the country's increasing energy demand. On top of that, the successful start-up of the Zawtika project, which began delivering gas to Myanmar in March and to Thailand in August, was one of the key growth contributors for the year. Although we have a contractual volume of approximately 300 million cubic feet per day (MMSCFD), the project recorded peak production level at 372 MMSCFD in October. Another key growth contributor was the Montara field, which significantly ramped up average production from 2013 to around 20 KBPD in 2014.

Our exploration and appraisal efforts intensified as we begin drilling in key projects in Myanmar, such as the appraisal program for Zawtika and Myanmar M3, as well as exploration in the Myanmar PSC-G and EP-2 onshore project in Q3. We also made some encouraging discoveries in Mozambique Area 1 in the Orca-2 and Orca-3 appraisal wells and the Tubarao Tigre-1 exploration well.

PART 4: 2014 KEY ACHIEVEMENTS (continued)

We also actively manage our portfolio to reinforce our competitive asset base in Thailand with the acquisition of Hess Thailand. After the acquisition, we have 55% interest and operatorship in the Sinphuhorm project and 60% interest in the Contract 4 project, which contributed approximately 4% of the 10% sales volume growth in 2014. Another achievement in the portfolio management spectrum was the Canada oil sands asset swap completed in May. Reflecting back to our decision to part ways with Statoil on the KKD project, we felt fortunate to have done the asset swap before the oil price drop as it removes our exposure to a cash bleeding operation as well as allow us to set our own pace to developing the Mariana project. This, compounded with $400 million cash received at swap, has helped soften the magnitude of asset impairment we took in the fourth quarter. We also extend our portfolio into Brazil deepwater exploration projects at their early stages to maximize the opportunity to create a long-term growth platform at low entry cost. While we still believe in its long-term potential; the capital intensive nature of deepwater operations may put it at challenge in the near term in the face of falling oil prices. We plan to work with partners to design the exploration program that is suitable for the current environment.

Our financial position is further strengthened, both operationally and strategically. Not only that sales volume growth expanded our operating cash flow base to north of 4 billion USD, we completed the issuances of our 1.6 billion USD of hybrid and synthetic bonds at a good timing. The 1 billion USD hybrid bond was issued in early Q3 at a very competitive spread of 185 bps; the same would have been issued at 250 bps spread today. In a distressed industry environment, oil and gas companies are looking to issue new debentures to fund their capital commitments, so we expect to see fund raising activities pick up in international capital markets across the globe. Lastly, we balanced the interest of shareholders with proposed dividends for the year at 4.50 THB/share, 3.00 THB/share of which was already paid for the 1H 2014 operation.

Slide 11

Our reserves and resources base have reshaped somewhat after the completion of the oil sands asset swap. Primarily as a result of the swap, we see our reserve base decreased and our 2C resources increased. While the proved and probable reserves (2P) life stood at 10 years at the end of year 2014, we have significant resource base which could have supported much longer years of production. The management focus over the coming years will therefore be to convert these resources to reserves. This will involve key decisions regarding the development plan of our large resource projects, which upon the final investment decision (FID) will convert from 2C into 2P and proved reserves (1P).

The geographical breakdown shows that our future reserves will mainly come from international projects; whereas the hydrocarbon breakdown shows gas-weighted reserve base represented mostly by our gas projects in Thailand and Myanmar and the resource base that is more liquid heavy attributed to the Mariana oil sand project.

I will hand over to Khun Penchun to explain the financial performance.

PART 5: 2014 FINANCIAL PERFORMANCE

Khun Penchun Jarikasem
Executive Vice President
Finance and Accounting Group

Slide 13

PTTEP's sales volumes in 2014 increased by about 10% year-on-year. 76% of which came from sales in Thailand, another 16% came from SE Asia primarily from Myanmar and Vietnam, and the remaining 8% came from Australia.

The weak oil price environment has had a relatively muted impact on PTTEP's core performance. This is because natural gas volumes, which are the majority of the Company's product, is priced using a formula that is only partially indexed to the oil price. This pricing structure effectively results in minimal impact of oil prices realized in 2014 on the Company's gas sales revenue.

2014 weighted ASP was around 63 USD/BOE, with natural gas sales price of 8.03 USD/MMBTU and liquid product sales price of 94.91 USD/BBL. 2014 average unit cost amounted to 43.60 USD/BOE, higher than 2013 primarily as a result of increased depreciation expenses from higher production out of the PTTEP Australasia and Zawtika projects. In addition, there was an increase in well write-off expenses recorded at 263 MMUSD compared to 71 MMUSD in 2013.

Since it is in the nature of the E&P industry that large upfront capital is required to develop petroleum reserves, DD&A represents a large portion in our unit cost. From the cash cost basis, we still expect to see strong operating cash flow. In the event that Dubai price remains at 55 USD/Bbl throughout 2015, our ASP is expected to fall to 48 USD/BOE. Based on our sales volume guidance for 2015, we expect that our operating cash flow would still be sufficient to fund our 2015 capital spending of around 3,000 M. USD. This is without taking into consideration that the CAPEX plan is still subject to further review and may result in adjustment downward, as to be explained by Khun Tevin later in the presentation.

Slide 14

PTTEP's net income in 2014 excluding impairment cost stood at 1,674 MMUSD. Per the international accounting standard, asset value should be tested regularly in light of material change in operating plan and environment. As a result, we realized an impairment expense of 997 M. USD comprising 367 M. USD from Montara project due to the significant drop in oil price and 630 M. USD from Mariana oil sand project due to the 2-year delay in FID timeline and revision to development plan. The decision to revise the development plan of Mariana oil sand project was influenced by the current downturn in oil prices and our assessment of resulting business environment for the oil sand. As Khun Tevin mentioned earlier, we were fortunate to have completed the asset swap earlier in the year receiving immediate cash inflow of around 400 M.USD; else the scope of impairment could have been larger.

PART 5: 2014 FINANCIAL PERFORMANCE (continued)

Slide 15

In 2014, PTTEP's operating cash flows amounted to 4,330 MMUSD as expected. With respect to crude oil and condensate volumes, PTTEP has to a certain extent, hedged to reduce exposure to the oil price volatility which helped support PTTEP cash flow. Other PTTEP's sources of funds included around 400 MMUSD from the oil sand asset swap, and 1,600 MMUSD from bond issuance. As a result, our total cash inflow was around 6,300 MMUSD. From this, we spent on CAPEX of around 2,600 MMUSD, dividend payment of around 700 MMUSD, and principal repayment and interest of around 600 MMUSD. Total cash outflow was approximately 4,700 MMUSD, resulting in ending cash of around 3,000 MMUSD.

Slide 16

PTTEP's asset grew around 1,500 MMUSD to 23,290 MMUSD in 2014, mainly increasing from cash and cash equivalent generating from our core operation and financing activity. In terms of debt, it went slightly up as a result of our issuance of synthetic bonds offsetting with bond repayment. Equity also increased by about 800 MMUSD to 12,548 MMUSD in 2014, as a result of additional retained earnings of 677 MMUSD, the issuance of 1000 M.USD hybrid bonds, and offset by dividends paid of around 700 MMUSD. Our debt profile remained 90% USD-denominated and 10% CAD-denominated. Cost of Debt was 4.14% with average loan life was 7.05 years, consistent with PTTEP's policy and aligned with the nature of the E&P business.

Slide 17

The 2014 annual dividend payment has been proposed at 4.50 Baht per share, of which 3 baht per share has already been paid out as interim dividends. The remaining 1.50 baht per share will be paid on 9 April 2015 after receiving approval from the 2015 AGM.

Slide 18

The last slide in this section provides a glimpse to PTTEP's liquidity in 2015. The picture on the left side shows correlations between Dubai price, our natural gas price, our liquid price and our average selling price. From the chart, if average Dubai price for 2015 changes by 50%, our average selling price will only change by 25%. In essence, we expect that our natural gas price which is resilient to changes in oil price will alleviate the impact of falling oil prices in 2015 on our ASP and hence our revenue stream. Picture on the right side is intended to provide a more specific example. If Dubai oil prices dropped from 2014 average of 97 USD/BBL to 55 USD/BBL in 2015, we expect our average selling price to decrease from 63 USD/BOE to 48 USD/BOE. With our cash cost maintaining at a similar level, we would be still be able to retain decent cash margin and generate cash flow that is sufficient to cover our CAPEX spending in 2015.

That is all for financial performance. Now I would like to hand the stage back to Khun Tevin to go through Outlook.

PART 6: 2015 OUTLOOK

Khun Tevin Vongvanich
President and Chief Executive Officer

Slide 20-21

In response to the fundamental industry change, we have established our priorities at different time spans. In the near-term, our focus will be on delivering sales volume growth as planned. Of the expected 6% growth from 2014, approximately 4% will mainly come from full-year contribution of Zawtika production and the rest from the acquisition of Hess Thailand last year.

Our new project start-up, the Algeria 433a and 416b project, is expected in 2H 2015, therefore will also contribute albeit at a small volumes for the year. More importantly, we must ensure that production target from our existing assets are met with maximum reliability.

Slide 22

At the same time, the low oil price situation creates an opportunity for us to re-calibrate our investment plan and take on cost optimization initiatives to fit the changing industry environment. Several oil and gas companies have already announced CAPEX reduction and we have started the initiatives since the end of last year and now are in the process for further revision to our expenditure program.

The principles behind our "SAVE to be SAFE" program are defined by four dimensions. Firstly, we examine our operations and determine the areas that we can achieve better efficiencies through operational excellence, synergies, supply chain management and process standardization. Initiatives, such as economic "fit-for-purpose" platform designs and streamlined equipment standards on all platforms, will help reduce the development cost and increase our competitiveness in the industry.

Secondly, we need to maximize our productivity by minimizing unplanned shutdowns and carefully coordinate with PTT on gas nominations. This allows us to trim our development drilling plan to adequately meet the gas demand.

Thirdly, we have to prioritize our capital investments such that they bring us good value. We would need to re-evaluate the investment plan for each project thoroughly. For instance, at the current oil price, some of the activities to increase production from existing assets could be deferred, so as some of the exploration activities in high risk areas. Additionally, our risk management program must be effective so as to protect our margins in the low oil price environment. A good example is the hedging program last year, which we realized considerable gain to compensate our lower average selling price.

PART 6: 2015 OUTLOOK (continued)

The fourth and final dimension is to instill a cost conscious culture to our organization, from field operations to top management. Not only will the awareness be developed within the organization, but it also extends to third party service providers that we work together with. This would relate to G&A expenses, a cost component that we believe we can further optimize.

To sum up, our cost optimization concept can be represented by 3Rs: Reduce, Remove, and Reschedule. Reduce means attempt to increase efficiency, hence reduce cost. Remove means to eliminate the “nice-to-have” activities and pursue a “fit-for-purpose” approach. Reschedule means deferring some activities and wait for better condition in the oil and gas market.

Slide 20

Whilst we have a cost reduction program in place, our strong financial position, with over 4 billion USD of operating cash flow last year, nearly 4 bn USD of cash on hand and a low gearing of approximately 0.3x, enables us to pursue value-creating growth opportunities, through new project development or M&A. In order to have near-term growth, reserves life improvement and qualified return criteria, we would be more cautious than aggressive in the M&A market.

On the medium term view, we are in an advantageous position to be flexible with the development plan to our pre-FID candidates, as opposed to having post-sanctioned development commitment. These candidates include the Myanmar M3, Cash-Maple, Algeria HBR and Mariana Oil Sands, to name a few. Between now and the next few years, we have the time and resources to cautiously assess the feasibility of the development of these projects, which by then we should see a clearer oil price trend. We will continue to focus our exploration and production activities in Southeast Asia whilst keeping new projects outside the region under our radar to keep our options for long-term growth.

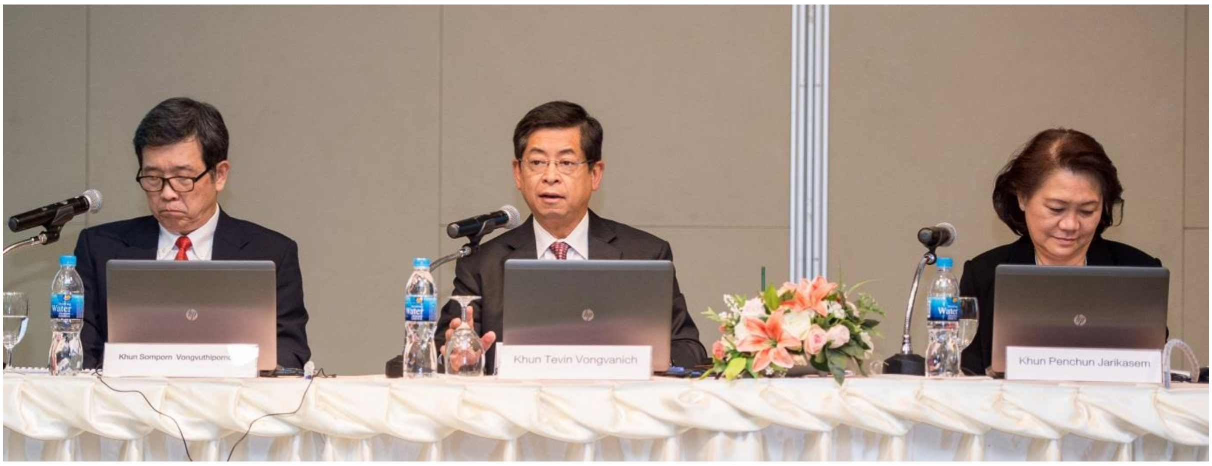
In the long-run, we need to reassess our strategic objectives on production and reserves life targets to incorporate the changing industry environment. We plan to communicate our revised strategic direction some time during 2H 2015.

Slide 23

To summarize all the points up to now, we believe that there is a fundamental change in the E&P industry caused by the prevalence of U.S. shale oil and gas production, which resulted in a sharp decline in oil prices. Unlike the previous price collapse, it will take some time for the oil prices to recover as the market finds a new equilibrium. At the same time, upstream companies are under intense cost pressure such that the industry’s cost is expected to adjust correspondingly to the new oil price levels. In counteract with the situation, PTTEP has prepared necessary steps to mitigate the impact from low oil price. First of all, our gas-weighted portfolio under long-term pricing formula means that our gas price is not adversely affected by the drop in oil price. Secondly, our competitive cash margin allows us to generate positive cash flows. Thirdly, by demonstrating prudent financial discipline, we can meet our debt and capital obligations with our high liquidity and low gearing position. This leads us well-prepared into 2015, with 6% sales volume growth expected along with paralleled emphasis on cost optimization program and on opportunities for long-term growth.

This concludes the presentation of the 2014 year-end performance. We will now open the floor for any questions and comments you may have.

PART 7: QUESTIONS & ANSWERS (Q&A)



Question # 1

What criteria or conditions would warrant an M&A transaction by PTTEP into US shale oil/gas assets?

Answer from PTTEP Management

The company sees investments in shale oil/gas as a possible opportunity in the future. Although there may be opportunities in the market, we are not in a rush to acquire shale assets. PTTEP takes a cautious approach, and will need to gain familiarity on many fronts of the shale oil/gas business both technical and commercial aspects e.g. project management, logistics, choice of basin and choice of partner. However, our main M&A focus will still be on producing assets in Southeast Asia.

Question # 2

How does the Company plan to improve its Reserve Replacement Ratio (RRR) in the next couple of years?

Answer from PTTEP Management

In the next couple of years, a likely candidate for FID is the Mozambique LNG project. If the project is sanctioned at the end of 2015, we will convert 2C resources to proved and probable reserves. Any M&A transactions for producing assets that we make will also improve the RRR.

PART 7: QUESTIONS & ANSWERS (Q&A) (continued)

Question # 3

Are there ongoing expenses related to the oil sands business after the asset swap?

Answer from PTTEP Management

PTTEP has some CAPEX commitments with the Canadian authorities. We plan to spend approximately 200-400 MMUSD on pre-development activities over 5 years.

Question # 4

What conditions are you looking for in order to sanction the oil sands project?

Answer from PTTEP Management

Investment hurdle rates are very important; thus we are reviewing the development cost profile for project feasibility. Other factors we need to consider include the infrastructure readiness to ensure that there is no bottleneck. These infrastructures include the Keystone XL pipeline, the Northern Gateway pipeline as well as rail capacity. Last but not least, WTI prices also need to be monitored. As we have shifted our FID out into 2017, there is still time to assess the conditions necessary for FID.

Question # 5

If PTT increases LNG imports due to lower spot LNG prices, how will this affect PTTEP's DCQ?

Answer from PTTEP Management

The DCQ is based on contractual agreements, therefore, it is unlikely to be impacted. However, volumes beyond DCQ may see some impact. Nonetheless, from a national perspective, the government would need to balance the indirect gains (net benefits to Thailand) from purchasing gas from Gulf of Thailand instead of LNG, because domestic gas sales also lead to more royalties and taxes.

PART 7: QUESTIONS & ANSWERS (Q&A) (continued)

Question # 6

We understand from PTT's plans that it intends to decrease gas imports from Myanmar and increase gas from the Gulf of Thailand. What impact would this have to PTTEP?

Answer from PTTEP Management

Gas from the Gulf of Thailand is of course cheaper than gas from Myanmar. However, in terms of volume impact, there are DCQs in place that need to be honored. Nonetheless, the trend for decreased gas from Myanmar is also from a mature stage of production of the fields like Yetagun and Yadana.seen at the time of project start-up for Mozambique LNG and Cash-Maple.

Question # 7

Given the declining production from the Myanmar Yetagun field, is there any room to lower DCQs to avoid penalties?

Answer from PTTEP Management

Yes, the contracts allow for renegotiating to adjust DCQs based on revised reserve estimations which may need to be certified by a third party.

Question # 8

Who has the final say on extension of the expiring concessions, and do they have sufficient information to make a sound decision?

Answer from PTTEP Management

Officially, the concessions cannot be "extended" under existing legislation. However, we believe the authorities understand the need for this issue of the expiring concession to be resolved sooner rather than later.

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

+66 2 537 4000

IR@pttep.com

Please visit our website for more information, latest news and upcoming events.

DISCLAIMER

Forward-looking Information

The information, statements, forecasts and projections contained herein reflect the Company's current views with respect to future events and financial performance. These views are based on assumptions subject to various risks. No assurance is given that these future events will occur, or that the Company's assumptions are correct. Actual results may differ materially from those projected.

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.*