PTTEP Q3 2015 Analyst Meeting

Edited Transcript

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

Speakers: Dr. Somporn Vongvuthipornchai
President and Chief Executive Officer

Khun Penchun Jarikasem
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's Analyst Meeting for the third quarter of 2015.

First and foremost, please allow me to introduce the Company's executives who will go over the company's key highlights, performance and outlook.

Dr. Somporn Vongvutthipornchai, President and Chief Executive Officer;

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

And without further ado, please welcome Dr. Somporn to commence the meeting.

Dr. Somporn Vongvuthipornchai
President and Chief Executive Officer

Good afternoon, dear analysts and guests. Before we proceed to the presentation, you may have noticed the semi-casual we are wearing today. This is our Safety, Security, Health and Environment (SSHE) shirt that we encourage all PTTEP employees to wear on every Monday of the week for the past few years as a reminder that safety is our top priority, anywhere and anytime.

As usual, the agenda today includes sustainable development, industry updates, recap on the company's achievements and outlook and the nine-month financial performance, which will be covered by Khun Penchun.

PART 2: SUSTAINABLE DEVELOPMENT

Dr. Somporn Vongvuthipornchai
President and Chief Executive Officer

Slide 3

Second Consecutive Year as a DJSI Listed Company

It is my greatest pleasure to say that PTTEP has proven itself to become a model corporation for sustainable development, having been selected as one of the Dow Jones Sustainability Index (DJSI) listed companies. We are also listed, along with three other Thai corporates, on the DJSI World, which comprises the world's leading companies in terms of economics, social development and environmental impact.

Our dedication towards SSHE is demonstrated through the company's performance on the Lost Time Injury Frequency (LTIF); whereby we had zero lost time incident in the past quarter and the year-to-date LTIF performance that is better than the industry average. Nevertheless we must continue our emphasis on safety as we approach the end of the year, during which bad weather and monsoons impose safety challenges to our drilling and construction activities.

We also have a good track record on oil spills, which underlines our emphasis of sustainable development not only to the well-being of our people but also to the environment.

PART 3: INDUSTRY UPDATE

Slide 5

Oil Prices

The graph shows that oil prices fluctuated in the 40 to 60 USD per barrel range during Q3 2015. The average oil price in Q3 2015 is around 50 USD per barrel. Despite some signs of slowdown in the U.S. production, the price momentum continues to be suppressed by market oversupply and concerns in Chinese economy.

Going forward, what we have seen in Q3 2015 is likely to continue into Q4 2015, we expect oil price to remain around 50 USD per barrel and mildly recover in the mid-50s USD per barrel in 2016. We note that our view is conservative comparing to the Bloomberg Analyst Consensus which puts Brent in 2016 at around 60 USD per barrel. We believe oil markets in the foreseeable future will be influenced by increasing export volumes from Iraq and the prospect of return of Iranian crude of between 0.5 to 1 million barrels per day (BPD) by the first half of 2016. On the flip side, slowdown in the U.S production following the price collapse confirms that there is certain level of sensitivity in the U.S. production to the change in oil prices with U.S. crude production expected to reduce to 9.2 million BPD in Q3 2015 from 9.4 million BPD in Q2 2015.

Slide 6

Industry Activity & Cost Trend

For this quarter, the onshore U.S. rig count remained low; for both horizontal and vertical rigs, corresponding to and resulting in a slowdown of U.S. production.

As for global offshore drilling rigs, the utilization rate is around 60-70% for all rig categories displayed in the slide; drill ship, semi-submersible and jackups. The prevailing market rig rates, i.e. for the new contracts, have also come down substantially since oil price falls, although this has not been fully reflected in the average rig rates as many active rigs are still based on existing pre-negotiated contracts. Under the low oil price environment, E&P companies would continue to negotiate for lower rate, and the market will work out its mechanism to identify the reasonable rate.

Slide 7

9M 2015 M&A Recap

This slide shows that the M&A situation in Q3 2015 has not changed much from Q2 2015. M&A transactions have continued to be at the low levels both dollar amount and deal count wises. Excluding Shell-BG deal, total M&A deal value of 2015 is much less than the value of 2014.

The lower left diagram illustrates the number of M&A transactions. There are much less deal counts in 2015, and most of the deals are in the North American region. Number of transactions in other parts of the world are still quite low. The rationale behind low number of M&A transactions was mainly due to the volatility of the oil prices and different price expectations between buyers and sellers. To date, there were deals valued totaling more than USD 25 billion that were cancelled or rejected as a result of differing price expectations.

PART 3: INDUSTRY UPDATE (continued)

Slide 8

Thailand Updates

While the Government still expects Thai economy to expand in 2015; as a consequence of the economic environment, the country's GDP projected growth has reduced from 4% at the beginning of the year to 2.7% in September.

Gas consumption in Thailand continues to grow throughout the year with LNG and imported gas from Myanmar playing greater roles in the country's supply mix. PTTEP has considerable investment stakes in the Myanmar sources including Yadana, Yetagun and especially Zawtika, the project which only started to produce last year and we hold an 80% interest in. Therefore, concerning PTTEP's sales volume in light of this new gas supply mix, we have seen that greater contribution of Myanmar gas can more than compensate for decreased contribution of the domestic sources.

The exchange rate at the end of Q3 2015 was 36.37 Baht per USD. The depreciation of Thai Baht against U.S. dollar caused foreign exchange losses and effects from such currency depreciation in the company's financial statements. This is something that we need to closely monitor as the exchange rate are expected to fluctuate through to the year end.

Slide 10

Progressing with Near-Term Priorities

Despite the challenges in the E&P industry, we have achieved a number of important milestones regarding the priorities in 2015. First of all, our year-to-date average daily sales volume reached a record level in the third quarter. This is believed to be on track for 3% growth in 2015 sales volume. Secondly, with the downturn in oil prices, one of our top priorities is cost reduction. Through our continuous efforts in the SAVE to be SAFE program, we managed to lower our expenditure plan in 2015 by approximately 14-15%.

The combination of solid sales volume growth, cost reduction efforts and investment re-prioritization have contributed to strong cash flow and helped maintain a robust capital structure. Last but not least, our focus to deliver near-term development plan has been met with the first oil production at the Algeria Bir Seba project, the first in Africa since our initial foothold in the region more than ten years ago. Currently the project is producing close to 20,000 BPD.

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Improved Cost Performance: CAPEX

Having previously announced the CAPEX reduction target of 17% from the original plan, or approximately USD 500 million, our nine-month performance suggests that we are on track to meet the target reduction and beyond. Approximately 60% of the CAPEX reduction is achieved through the cancellation or rescheduling of investments. The other 40% are from actual cost reduction; whereby we can perform same business activities at lower costs. We were able to achieve this through efficiency improvement, adjustments in work processes and streamlined facility and well designs.

PART 3: INDUSTRY UPDATE (continued)

One such example is our drilling performance in the Gulf of Thailand which we have seen substantial improvements in both drilling days and average cost per well. Improvements have been achieved in several areas, including lowering non-productive time, leaner well program and better logistics planning and management. As a result, the average drilling days was reduced by approximately 20% compared to last year and well costs have also been reduced by a similar magnitude. Note that drilling expenditures account for 50-60% of PTTEP's CAPEX budget.

Slide 12

Improved Cost Performance: Cash Cost

Whilst our CAPEX reduction will reap us benefits in the longer term, the reduction in per unit OPEX and G&A will have an immediate impact on our cash flow. The OPEX reduction mainly comes from a more refined and economical field operations, such as synergizing logistics and inventory management to reduce the use of helicopters and ships. The G&A reduction was the result of more stringent corporate expenditure policies, such as use of professional and IT services, as well as travelling and business-related expenditures. We have implemented cost cutting practices across the organization and are expecting to see meaningful reductions in both types of costs towards the end of the year.

Slide 13

Reaffirm Strategic Priorities (1/2)

Our near-term focus is to sustain our financially strong position through the low oil price period. In the test of survival of the fittest, our financial competitiveness must be supported by four key drivers. First is to achieve solid sales volume growth without compromises in our safety practices as we aim to keep our operations as continuous and reliable as possible. The sustained productivity must be met by a continued emphasis on cost reduction efforts as we carry the momentum from a solid effort this year into the coming years. Additionally, we will also use oil price hedging to protect the baseline cash flow and net income under the volatile oil price environment. Furthermore, we need to focus on optimizing our portfolio and investment schedule to align with the dynamic oil price environment and growth plan. This involves pushing back projects with longer investment horizons and not favorable in the current oil price levels and focus on projects that can deliver appropriate returns with acceptable risk profile.

Slide 14

Reaffirm Strategic Priorities (2/2)

As mentioned earlier, the startup of Algeria Bir Seba project is the first of a number of projects that we are moving forward with. Amongst those are projects that we believe could proceed to final investment decisions in the near term, such as the Ubon field in the Contract 4 project and the Mozambique Rovuma Offshore Area 1 project. Furthermore, given the right market condition and available opportunities, our strong financial position will support us to engage in some interesting M&A activities. We are also looking to strengthen our exploration portfolio to broaden our alternatives to grow organically.

This concludes my part in the presentation. Khun Penchun will take over from here to discuss the nine-month financial results and business outlook in the fourth quarter.

PART 4: PERFORMANCE HIGHLIGHTS & STRATEGY

Khun Penchun Jarikasem
Executive Vice President
Finance and Accounting Group

Greetings everyone. Today, I will provide a recap of PTTEP's financial results. Three key elements that drive our profitability are sales volume, selling price and unit cost. Sales volume for the nine-month period stood at 328 thousand barrels of oil equivalent per day (BOED). We have set the growth target of around 3% from 2014 level for this year. At the end of nine-month period, we have achieved around 2% growth, and we are hopeful that we can achieve our growth target by the year end.

Slide 16

Sales Volume & Unit Costs

As for the selling price, the oil price has declined by 40-50% while gas price only had a minor decrease. This is because of partial linkage to oil price and lag-time of 3 – 12 months in price adjustment. The average natural gas price for the nine-month period is 7.47 USD per MMBTU and will decrease to around 6.3 USD per MMBTU in Q4 2015, while the liquid selling price in Q4 2015 will depend on market price. The weighted average selling price for the nine-month period has declined by around 25% to 47.22 USD per barrel of oil equivalent (BOE) from 63.38 USD per BOE in 2014. Due to gas pricing characteristics as I just mentioned, relationship of our realizable gas price to oil price in 2015 appears such that, if the oil price drops by 50%, weighted average selling price is likely to drop by around 25%.

We have always been communicating our cost saving initiatives and we began to see drops in certain cost categories such as G&A expenses and OPEX. The average unit cost for the nine-month period of 2015 is 40.20 USD per BOE, as compared to 43.60 USD per BOE for 2014 and 42.22 USD per BOE for the nine-month period of 2014. The average unit cost in Q3 2015 was reduced to approximately 39 USD per BOE and we expect to maintain this level in Q4 2015 as well.

Slide 17

Net Income Breakdown

With the sales volume, price and costs presented in the previous slide, 9-month recurring net income is approximately USD 700 million. Nevertheless, there are non-recurring factors that adversely impacted our bottom line as a result of exchange rate of Thai Baht against USD and oil price. In the case of Thai Baht currency, in particular under the current scenario where Thai Baht depreciates against USD, there will be deferred taxes on functional currency and tax incurred from the currency conversion of inter-company loans. In general, every 1 Thai Baht depreciated against U.S. dollar will result in approximately USD 100 million loss. During the nine-month period, Thai Baht has been depreciated against U.S. dollar from 32.96 Baht per USD to 36.37 Baht per USD at the end of Q3 2015. The 3.4 Baht per USD deprecation resulted in USD 360 million loss.

PART 4: PERFORMANCE HIGHLIGHTS & STRATEGY (continued)

Regarding the oil price, we have entered into oil price hedging contracts and we gained USD 54 million for the nine-month period as a result of the mark-to-market and settlement of oil price hedging contracts. Now, we move to the biggest non-recurring item, the impairment loss on assets. Most of impaired assets were oil or highly oil-linked projects – being most exposed to dropping oil prices. The total impairment loss on assets during Q3 2015 is USD 1,385 million. In conclusion, the net loss for the nine-month period of 2015 is USD 986 million.

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Cash Flow Performance

Majority of the non-recurring items are non-cash items, and therefore did not impact our cash flow performance. During the nine-month period, we have operating cash flow of over USD 2 billion, and we expect a total operating cash flow of approximately USD 3 billion for the year 2015. Such healthy operating cash flow is sufficient to cover our investment to maintain our production as well as interest and dividend payments.

In the right graph, cash outflow during the nine-month period includes bond and long-term loan repayment and prepayment totaling USD 825 million. This works to strengthen our capital structure in accordance with our financial management policy.

Slide 19

Financial Position

Loan repayment and prepayment helped maintain low debt to equity ratio, despite impairment of assets. Our D/E ratio reduced from 0.34 at year end 2014 to 0.29 at the end of Q3 2015. Our asset size decreased from USD 23 billion in at year end 2014 to USD 20 billion at the end of Q3 2015, mainly due to the impairment. Our interest bearing debt at the end of Q3 2015 is USD 3.2 billion with the proportion of fixed and floating interest rates at 75:25, which we have taken into consideration of potential risk from FED interest rate hike.

Slide 20

2015 Outlook

This slide outlines our business outlook in Q4 2015 and the year 2015. The average gas selling price is expected to fall to 6.3 USD per MMBTU in Q4 2015. We maintain that our sales volume for the year 2015 could grow by approximately 3% from 2014 level, as per our target. The average gas sales price is expected to come in around 7.2 USD per MMBTU for the year 2015, with the product mix (gas:liquid) of 70:30. We also expect to remain strong on cash flow performance with EBITDA margin for the year 2015 at around 70% and full-year operating cash flow of approximately USD 3 billion.

And this brings me to the end of my presentation. We will now proceed to the Q&A session.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

What is the company's reserve life target?

Answer from PTTEP Management

Currently the company's proved reserves life stands at approximately 6 years. By moving forward with the pre-FID candidates over the next few years, we expect the ratio to remain within the proximity of 6-7 years. Further reserves addition will come from additional exploration, which will take some time to convert the resources to reserves depending on the development plan, and through M&A, which would require one to have a sizeable R/P ratio.

Question # 2

How will the company's cost savings plan affect the maintenance CAPEX?

Answer from PTTEP Management

Given the efforts put into cost reduction in 2015, particularly through more efficient drilling process and contract renegotiations, we should be able to see higher reduction in 2016. Part of this should also help bring down CAPEX level needed to maintain production since over half of these CAPEX budget is used in drilling and well construction.

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

Question # 3

What is the DD&A per BOE for Montara and Natuna Sea A projects after impairment?

Answer from PTTEP Management

The impairment in Q3 is expected to bring DD&A for Montara down by approximately $20/BBL. There is also a possibility to bring DD&A for Montara down even further as the company is currently evaluating the feasibility of drilling an additional well. DD&A for Natuna Sea A is expected to come down by approximately $10/BOE, or from $26/BOE to around $16/BOE.

Question # 4

Assuming Dubai price stays at around $50/BBL next year, what is the expected gas selling price?

Answer from PTTEP Management

Gas price is expected to be in the early $6/MMBTU.

Question # 5

Assuming Dubai price stays at around $50/BBL next year, how will this impact the company's operating cash flow and CAPEX plan?

Answer from PTTEP Management

Operating cash flow is expected to be in the $2.5 billion range. Our CAPEX plan is currently under review but it is expected to be flat to down from this year's level and sufficiently funded by our operating cash flow.

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

Question # 6

Regarding the latest Power Development Plan (PDP) by the Ministry of Energy, gas from the Gulf of Thailand (GoT) is expected to take a significantly lower share of energy supply. How much reserves is left in the GoT and does the lower share of supply take into account the impact of expiring concessions?

Answer from PTTEP Management

The GoT currently has a proved plus probable (2P) reserve life of more than 10 years. To extend this, continued investment in expiring concessions will play a part. In PTTEP's view, we believe there remains gas resource potential within these areas and, with appropriate fiscal and regulatory environment, we would like to continue investing. With respect to power plan in PDP 2015, percentage contribution of natural gas may have decreased over the years but gas demand (volume-wise) continues to grow. Substitution of natural gas share with alternative sources of fuels such as coal, nuclear and renewables simply reflects diversification so as to ensure energy security of the country.

Question # 7

Some industry reports suggest that long-term LNG price could go down further. How will this impact the economics for the Mozambique LNG project?

Answer from PTTEP Management

If investment decision is made as planned, our target first LNG is expected around the end of this decade. In view that long-term oil price is expected to recover to around $70-80/BBL range, the long-term LNG price, which has indexation to crude, would also rebound. At such price level, we believe that the project is economically competitive.

Question # 8

Given that the company is well-prepared to engage in M&A and that there are some distressed assets available in the market at the moment, has the company's approach to M&A become more conservative or do the company see this as opportunity to invest?

Answer from PTTEP Management

We are constantly looking for opportunities to engage in M&A, at the same time remain very prudent with our selection process for assets that fit the company's strategy. For the first nine months of this year, there are very few assets that are available and fit the criteria, let alone the low level of transactions announced in Asia.

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

Question # 9

At what oil price assumption was the impairment in Q3 based on?

Answer from PTTEP Management

Price assumption used in the impairment test is $47-48 (Q4 2015), $52 (2016), $57 (2017) increasing to $76 in 2020.

Question # 10

What oil price level will the Canada oil sands project become economical?

Answer from PTTEP Management

Based on the latest revision to the project's development plan, we expect an FID in 2019 and first oil in 2023. By then, we expect the oil price to recover to the level where the project becomes economical.

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

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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.*