PTTEP 2015 Year-end Analyst Meeting

Edited Transcript

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

Speakers: Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Khun Suchitra Suwansinpan
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 2015 Year-end Analyst Meeting. Before we commence the session, please allow me to introduce the Company's executives who will be giving reports on PTTEP's operating performance.

First, Khun Somporn Vongvuthipornchai, President and Chief Executive Officer

Second, Khun Suchitra Suwansinpan, Executive Vice President - Strategy and Business Development Group

Lastly, Khun Pannalin Mahawongtikul, Executive Vice President - Finance and Accounting Group

Without further ado, please join me in welcoming Khun Somporn to begin the presentation.

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Greetings to all fellow analysts. As usual, I will first address the sustainable development and safety performance. Then, Khun Suchitra will discuss about industry highlights, followed by financial results by Khun Pannalin. At the end, I will conclude the presentation talking about the Company's key achievements and outlook.

PART 2: SAFETY PERFORMANCE

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Slide 3

Second Consecutive Year as a DJSI Listed Company

For sustainable development, it is my greatest pleasure that PTTEP has been selected as one of the Dow Jones Sustainability Index (DJSI) listed companies in recognition of its excellence on sustainable development, for the second consecutive year. This listing, which criteria includes economic, social and environmental aspects, was particularly challenging for an E&P company in the light of low oil price environment; hence we are very pleased with this outcome.

Safety has always been the number one priority that the Company focuses on. There has been impressive improvement on safety performance over the past five years. The company's performance on the Lost Time Injury Frequency (LTIF) for 2015 was 0.13 incident per million man hours, representing 4 incidents. Though, the industry average LTIF for 2015 has not been released yet, we are certain that our performance is above industry average, and we are hopeful that our performance would rank in the first quartile of industry. Ultimately, we aim for a 'target zero' with regards to accidents from our operations.

Next, Khun Suchitra will discuss on industry highlights.

PART 3: INDUSTRY HIGHLIGHTS

Khun Suchitra Suwansinpan
Executive Vice President,
Strategy and Business Development Group

Slide 5

Oil Prices

As you are all aware of, the low oil price during 2015 has been the consequence of oversupply condition from the production both from the U.S. and the OPEC. For the demand side, the GDP growth has not been according to what has been forecasted and the economy did not seem to recover very fast. Hence, the oversupply condition and stagnant demand are two major factors driving the oil price down.

Going forward into 2016, financial analysts, industry experts and credit rating agencies have different views regarding the average oil price, however, the consensus is that the average oil prices will increase due to a number of reasons. For instance, many petroleum companies have cut investment budgets or delayed project commencement, resulting in lower supply into the market. Speaking of demand, currently the global demand is around 94 million barrels per day (MMBBLD) and the oversupply is around 2 MMBBLD. Anyhow, research suggested that the demand increase will be about 1.2-1.4 MMBBLD every year, which will gradually eat up the oversupply leading to balance of demand and supply in 2017. For this reason, it is anticipated that the oil price should increase, though not steeply, in the second half of 2016 and continue the trend into the following year.

Slide 6

Cost & Industry Trend

Responses of energy companies and energy service companies following the lower oil prices mainly involve cost cutting. From the graph, the black line demonstrates the oil prices while the red and blue lines show the upstream capital and operating cost indices, both have been decreasing allowing energy companies to continue their operations even at low oil prices.

Under this oil price environment, there are a few common responses by energy companies. First, cost optimization and investment prioritization e.g. deferring high cost projects such as LNG and deepwater projects. Second, portfolio rationalization i.e. shifting back to their core high-value assets in the portfolio and placing more focus on areas where they have competency and competitive advantages, divestment of non-core assets. Lastly, consolidation to stimulate synergy and economies of scale. Energy companies, including PTTEP, have to react in a number of ways in order to get through this low oil price environment.

PART 3: INDUSTRY HIGHLIGHTS (continued)

Slide 7

FY 2015 M&A Recap

This slides show the number and value of M&A transactions throughout the year 2015. Excluding the Shell-BG deal, all M&A transactions value is only 58 billion USD, as compared to 184 billion USD in 2014. The deal count is also half of 2014's. This shows that the low oil price does not lead to more M&A transactions but rather the opposite. This is due to a gap in expectation between buyers and sellers i.e. buyers value the deal in reference with the low oil prices while sellers would anticipate the upward oil prices adjustment in the near future. Excluding the Shell-BG deal, the regional classification of M&A deals during 2014 to 2015 remain pretty much unchanged, with the majority of M&A deals taking place in North America.

Slide 8

Thailand Updates

Let's take a closer look at the situation in Thailand. The upper left graph displays a very small growth in natural gas supply from 2013 to 2015. From the graph, proportion of domestic gas supply in 2015 declined slightly and was substituted by LNG import since the LNG spot price is cheaper than natural gas from certain fields in the Gulf of Thailand in certain periods. However, LNG would only substitute the demand that exceeds the daily contract quantity (DCQ) requirement under the long-term gas sales agreement.

From the bottom left graph, the existing LNG terminals with the capacity of 5 million tons per annum (MMTPA) are going to be used up in the next few years so LNG terminal expansion plan with the capacity of another 5 MMTPA is underway. In the long term, LNG import is projected to grow in order to serve the growing demand.

Another significant factor affecting PTTEP's business is foreign exchange (FX), which appears to be volatile during the year 2015. For 2016, the broad blue-shaded range shows the analysts' forecast of the FX.

Moving into Thailand's upstream energy reform, there is still lack of clarity on the matters of the expiring concessions and the new bidding round. This poses a risk about sources of gas supply to support growing demand, which the country has to rely on other sources (e.g. import) otherwise. However, we are hopeful that there will be concrete progress on these matters within this year.

Khun Pannalin will now discuss about the financial results for the year 2015.

PART 4: FINANCIAL RESULTS

Khun Pannalin Mahawongtikul
Executive Vice President,
Finance and Accounting Group

Slide 10

Sales Volume & Unit Costs

Let me summarize the key financial performances for the year 2015. To begin with, our sales volume in 2015 grew by around 3% as per targeted. Sales volume for the year was 322 thousand barrels of oil equivalent (BOE) per day. The weighted average selling price was 45.29 USD/BOE, approximately 29% drop from 2014 level, while the average Dubai crude price dropped by around 47%.

Moving to the right side, the unit cost for 2015 was 38.88 USD/BOE, which is still lower than average selling price, and the cash cost is 15.75 USD/BOE. At this level of oil price, the Company generated operating cash flow of around 2.8 - 2.9 billion USD. Comparing 2014, the unit cost reduced by 11% and cash cost dropped by 25%. I would like to highlight that the G&A expenses (2.39 USD/BOE) and OPEX (6.04 USD/BOE) reduced by 28% and 16% respectively, mainly as a result of the 'Save to be Safe' campaign in which we were able to cut down OPEX and CAPEX by approximately 1.4 billion USD in 2015. Taking this further, we have set a unit cost reduction target of around 10% for 2016.

Slide 11

FY 2015 Net Income Breakdown

The recurring net income in 2015 declined from 2014 by about 53% to 718 million USD. On the right side, apart from recurring net income, there was positive effect from financial instruments of 132 million USD, mainly from oil price hedging gain of 126 million USD. Also, there was FX and FX-related tax negative impact totaling 319 million USD. In general, every 1 Thai Baht depreciated against USD will result in approximately 100 million USD loss. Another major item was the impairment loss on assets in Q3 2015 of 1,385 million USD, leading to the net loss of 854 million USD for the year 2015. However, most of the aforementioned effect of FX and impairment loss are considered accounting non-cash loss.

Slide 12

Cash Flow Performance

As mentioned, the Company generated 2,864 million USD operating cash flow in 2015 and maintained the EBITDA margin at 71%. For the uses of cash flow, the Company used 1.9 billion USD for CAPEX investment, 0.5 billion USD for dividend and interest payments, bond repayment of 0.7 billion USD and loan prepayment of 0.4 billion USD. At the end, cash on hand at the end of 2015 is at 3,260 million USD.

PART 4: FINANCIAL RESULTS (continued)

Slide 13

Financial Position

This slide illustrates our strong financial position. After debt repayment/prepayment, the debt to equity ratio has dropped from 0.34 to 0.27. And currently our debt portfolio is 100% in USD.

Slide 14

Dividends

We have already announced the dividend of 3 Baht per share for the whole year in 2015, which includes dividend of 2 Baht per share for the second half of 2015. The Company took into consideration the strong financial position and healthy cash flow in determining dividend. This demonstrates our commitment to shareholders. Every dividend payment of 1 Baht per share is equivalent to approximately 110 million USD.

PART 5: KEY ACHIEVEMENTS AND OUTLOOK

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Slide 16

2015 Key Achievements

With regards to the Company's key achievements in 2015, we were successful at growing our sales volume by around 3% as planned. This was made possible by stable domestic sales volume and production growth from our overseas operation, including successful start-up of our Algerian oil field. We were also successful with our cost reduction program through both prioritizing investments in lights of changing oil prices and efficiency and cost improvements. Over the year, we saw our unit cost dropped by over 10% and our capital and operation expenditures for 2015 reduced by 30% from the original budget, leaving us with the operating cash flow of 2.9 billion USD. Despite the challenging price environment, we were able to maintain ample liquidity and robust capital structure with over 3 billion USD cash on hand and total debt to equity of 0.27 or negative net debt given our cash holding. With the solid cash flow performance and strong financial position, the company proposes dividend payment for the whole year at 3 Baht per share, subject to the Annual General Shareholder meeting approval.

PART 5: KEY ACHIEVEMENTS AND OUTLOOK (continued)

Slide 17

RESET to Survive in the Low Oil Price Environment

Going forward, we need to reset our cost base in order to stay competitive. We target to maintain sales volume in 2016; although some variations may be possible depending on oil prices and consideration to attractiveness to continue investments. We will also re-visit our capital and operating budget with a target to reduce 2016 budget by around 10% from the previously announced plan and further reduce the unit cost by an additional 10% from 2015 level.

Slide 18

Cost Reduction through Core Operations

This slide displays major costs borne by the Company in order to illustrate how we are going to pursue the aforementioned cost reduction targets. The majority of our costs are mainly comprised of drilling costs, wellhead platform construction costs, operating expenses. If we can reduce these major cost elements in a continuous and systematic manner, it is certainly going to be beneficial to our competitiveness going forward. For instance, we target to bring down installation costs of new wellhead platforms by 15-30% by 2017. We will achieve this partly through fee reductions in the new construction contract.

The average cost per well in offshore Southeast Asia projects that PTTEP operates has come down by 20% in 2015 from 2014 level. We will continue to improve our drilling performance and target for further 10% reduction by applying our previous success to drilling operations in Myanmar.

Similarly we have already seen our OPEX and G&A per BOE in 2015 reduced by 20%. This is even greater than declining rate in industry's average operating cost index. We have set a further reduction target for OPEX and G&A expenses at 5-10% this year.

Slide 19

REFOCUS to Capitalize on the Upturn

Apart from resetting the cost efficiency and structure to maintain our competitiveness in the coming future, we have also realigned our focus on investment priorities. The number one focus for PTTEP in 2016 is the Mozambique project which the operator maintains FID target for this year. This may look like a stretched target but the project partners will work toward this goal as hard as we can.

Regarding the other three projects; Ubon oilfield under Contract 4 in the Gulf of Thailand, HBR oilfield in Algeria and M3 gas field in Myanmar, the Company will need to revisit development design and cost structures of these projects to further drive down costs before we can make a decision to move forward.

PART 5: KEY ACHIEVEMENTS AND OUTLOOK (continued)

As for the other two projects; Cash Maple Field in Australia and Mariana Oil Sands in Canada, we decided to delay activities and minimize spending in these projects, given their high cost structure, until price environment becomes more favorable. In the meantime, we would maintain our visibility on new options, if any, to monetize these resources and assess for opportunity to reduce development costs and improve economics in these projects.

M&A is another investment option we would focus on. High volatility in today's oil price make it quite challenging for an M&A transaction. Nevertheless, we believe now is a good time for us to buy assets that are value-creating and complementary to our portfolio and we will be actively monitoring for such acquisition opportunities.

Our M&A focus would be the producing or near-producing assets in Southeast Asia; which should also help contribute to our R/P ratio. In addition, we would also explore for opportunities to create synergic value with PTT along the gas and in particular LNG value chain in an expectation that Thai market will have an increasing need for LNG import in the next decade. On the last point, we will also consider portfolio rationalization; reconsidering our position in high-risk projects, marginal projects as well as field consolidation opportunities.

To summarize, it is our target to reset our operational approach, process and our cost structure to create sustainable reduction in our cost base and set us with necessary competitiveness to strive in today's environment. Meanwhile, we will refocus our priorities to investments, given various investment options we have at hands, to ensure our capital efficiency is maximized.

And that concludes my presentation for today. We will now proceed to the Q&A session.

PART 6: QUESTIONS & ANSWERS (Q&A)

Question # 1

Please discuss around the progress of Mozambique Area 1 LNG and Myanmar M3 projects and their potential impairment

Answer from PTTEP Management

For Mozambique project, currently the operator targets for Final Investment Decision (FID) within this year, subject to the conditions of securing SPAs. Negotiation is in process to convert non-binding HOA to SPA. For the impairment, it will be tested if there is a material value impact from any delay to the schedule for production start-up. For Myanmar M3 project, the company is in the process of appraising reserves and evaluating development option that is suitable to the project.

Question # 2

Given 2015 dividend payment of 3THB per share, does this suggest PTTEP may consider maintaining dividend at this level in future years?

Answer from PTTEP Management

The decision of the dividend payment depends on several factors including investment opportunity, cash on hand and shareholders' expectation. Nevertheless, the Company consistently maintains the policy of dividend payment not less than 30% of net income.

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

Question # 3

Please discuss in detail about Reserve Replacement Ratio (RRR ratio) and cost for the conversion of 2C to 2P

Answer from PTTEP Management

Current RRR ratio is 0.5 times. We believe that there are opportunities to improve such ratio in the longer term by 2 main ways; 1) investment in LNG or a natural gas project, in which the company has core competency and especially synergy opportunities with PTT on LNG value chain, and 2) refocusing on low-risk exploration portfolio. Top three projects that contribute to 2C resources are MOSP, Mozambique and Cash/Maple projects. Mozambique Area 1 project is more advanced in terms of project progress; while MOSP and Cash/Maple has high cost structure; therefore, we need to revisit the development options to ensure that development costs are brought down.

Question # 4

In terms of LNG industry, how much cost reduction can the LNG producers be achieved so far? What is the pricing structure of LNG?

Answer from PTTEP Management

Same as cost of overall upstream industry, LNG industry was able to realize ~20% capital cost reduction so far comparing to late 2014. For pricing structure, LNG contracts are priced with indexation to gas or crude or both, varying from contract to contract. The LNG buyers and sellers would consider to balance risk and return in their portfolio.

Question # 5

For Thailand's LNG demand projection shown in presentation page 8/20, what are the assumptions for the ups and downs in the incremental trend?

Answer from PTTEP Management

Thailand's LNG demand projection information is from Thailand's Energy Policy and Planning Office's Gas Plan 2015. In this plan, LNG is used as substitution for gas demand that cannot be supported by other sources e.g. domestic production. In particular years (i.e. 2020-2021) that the LNG demand is projected to fall, this is due to a drop in gas demand for electricity since electricity in those particular years is planned to be supported by other sources i.e. coal.

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

Question # 6

What locations are the potential LNG sources to cope with Thailand's high LNG demand in the future? What is the positon of PTTEP for Thailand's LNG market?

Answer from PTTEP Management

It is clear from the Gas Plan of Ministry of Energy that there will be growing demand for LNG in Thailand. PTTEP would be looking to create synergic value with PTT through investments along the LNG value chain to satisfy growing domestic needs. LNG sources to focus on are still to be assessed.

Question # 7

What is the current status on the review for downgrade by Moody's?

Answer from PTTEP Management

The main reason behind Moody's review for downgrade is their oil prices assumption which is more conservative than the consensus. The review also depends on the financial and liquidity strength of the company as well as the support from the parent company. The outcome of the review is expected to be announced in March.

You can reach the Investor Relations team for more information and inquiry through the following channels:

http://www.pttep.com
IR@pttep.com
+66 2 537 4000

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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.*