PTTEP Q2 2015 Analyst Meeting

Edited Transcript

Venue: Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand
11 August 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 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 second quarter of 2015.

Please allow me to introduce the Company's executives who will be giving reports on PTTEP's operating performance today.

First, Mr. Tevin Vongvanich, President and Chief Executive Officer;

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

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

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

Khun Tevin Vongvanich
President and Chief Executive Officer

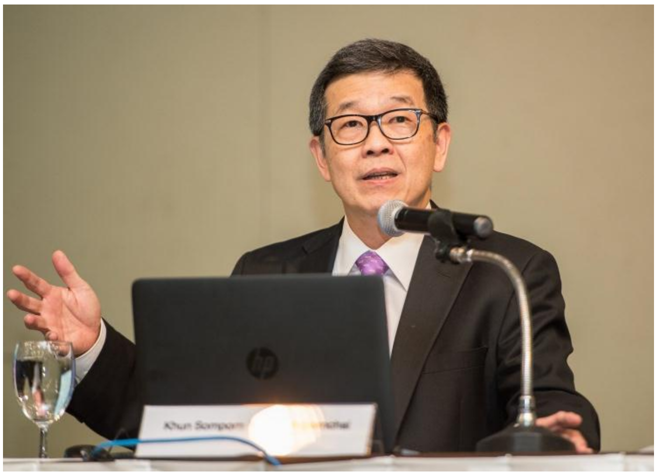
Greetings to all analysts and fund managers. We meet again; this time for the presentation of PTTEP's operating performance of the second quarter and the overall performance during the first half of 2015. As usual, I would like to begin with the safety statistics, which Khun Somporn will be discussing further about this topic.

PART 2: SAFETY PERFORMANCE

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

Slide 3

1H 2015 Safety Highlights



As always, PTTEP has put great emphasis on safety across all areas of operations. The frequency of our LTI (Lost Time Incident) stood at 0.18 incidents per million man hours for the first six months of 2015. Judging from past industry performance, we still perform better than the industry average. In the first half of 2015, we had 3 loss-time incidents; two of which were 'fall and trip' and the last was 'drop object' from crane operations causing injuries.

Once again, we can never stress enough the degree of emphasis we place on safety and the environment.

PART 3: INDUSTRY UPDATE

Slide 5

Oil Prices

Now I would like to move on to discuss the overall industry update, specifically the oil prices. Oil price has now fallen back to the level seen at the beginning of 2015 after recovery to above 60 USD per barrel in the second quarter. Detail of oil price movement in 2015 so far is such that Brent started off very low at the beginning of the year, bottomed at 46 USD per barrel falling from over 100 USD seen in the first half of 2014. Although the oversupply concern remains, continued unrest in the Middle East and cut back of activities in the US seen through declining rig counts and drawdown of US oil inventory had supported price recovery to an average of 54 USD per barrel and 63 USD per barrel in the first and second quarter of 2015 respectively.

PART 3: INDUSTRY UPDATE (continued)

However, the overall outlook in the second half of 2015 might not be as positive considering the continuing oversupply situation with oversupply gap seen in 2015 at around 1.5-2 million barrels per day, widening from 0.5 million barrels per day in 2014. Additional oil outputs from Iran when international sanctions are removed would only compound to the pertaining oversupply concern. Another factor to watch is how much slowdown in production will be felt for the US since, as of late, there were signs that oil production may not be as stagnated as originally expected following oil price recovery in the second quarter. The other factor affecting the oil price is the economic recession in many parts of the world, for examples, China.

In terms of numbers for the oil price outlook, the blue area on the slide is based on Bloomberg Analyst Consensus as of August 4th, although I understand that forecast by some analysts has not been revised of late. Brent forward curve, also quoted on August 4th and displayed in the dark blue line, was in the 50 USD/barrel range.

Slide 6

Industry Costs

With regards to costs, in line with our expectation, several indicators have shown that industry costs start to decrease following extensive spending cuts by oil and gas companies.

I would like to first highlight the upper left graph, specifically during the major oil price drop in 2008-2009. The red line displays the CAPEX index and the blue line displays the OPEX index. During that period, costs dropped corresponding to the falling oil prices. Similar pattern is seen in 2015. Following the recent price drop, the upstream CAPEX index has come down by 15%, while the operating cost index decreased by about 5%. This declining trend is in line with the latest revision to our 2015 budget which we cut our CAPEX budget for the year by 17% and OPEX budget by 9%. Internal monitoring system has been put in place to make sure that this cost-cutting target is achieved.

Moving on to the lower left graph which illustrates average rates for different rig categories; drill ship, semi-submersible and jackup rigs. Right now the downward trend is still not evident on average rig rate for all active fleet; however the prevailing market rate, i.e. the new contracts, for every rig type has decreased meaningfully.

The graph on the bottom right is the average rig utilization. Corresponding to the lower rig rates, overall rig activities have also reduced. There has also been a considerable drop in rig utilization in the US. I should however highlight to you that, despite the fall in rig activities, oil production from the US has not really decreased as per statistics available today.

PART 3: INDUSTRY UPDATE (continued)

Slide 7

2015 1H M&A Recap

This slide resembles what I have shared during our meeting in the last quarter. To summarize, if not taking Shell's acquisition of BG into account, total number of deals and total value of transactions have significantly decreased in the first half of 2015, compared to 2014, due to the fact that buyers and sellers still have not found a common ground to deal valuation. Majority of the M&A deals took place in North America, while there is only one deal in South and Southeast Asia (in India) which is the region of our primary focus. Overall, upstream M&A is still subdued.

Slide 8

Thailand Updates

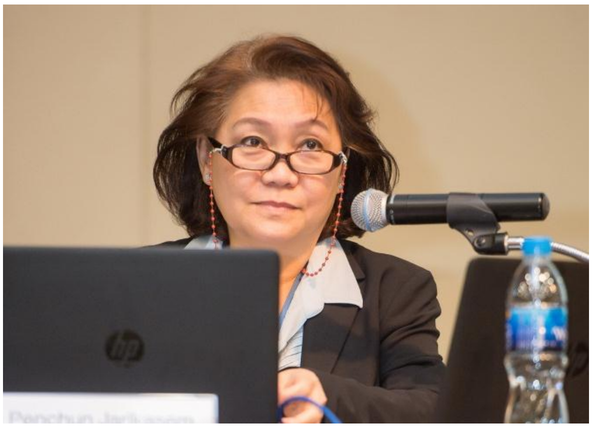
This slide focuses on Thailand energy market. On Thai gas demand, the red line in the top chart on the left hand side illustrates monthly domestic gas consumption which tends to vary seasonally. Overall we have seen Thai gas market continues to grow in 2015. As for gas supply, the gas supply composition has tilted slightly more toward LNG and Myanmar. In the first five months of 2015, we have seen LNG takes up a larger role in the domestic gas market. Coupled with the increased supply from Myanmar, share of domestic gas supply has been somewhat affected. The positive for PTTEP is that a majority of increased gas supply from Myanmar is sourced from Zawtika project in which we holds 80% interest . Despite the slightly diluted share of domestic gas supply, our target for 3% increase in sales volume should still be within reach.

In terms of regimes and other relevant regulations, I believe the government has made clear publicly that the expiring concessions and the continuation of gas supply is significant issues. National Energy Policy Committee (NEPC), chaired by the Prime Minister, mandated that the contractual management plan for expiring concessions should be concluded within one year (from May 2014). Priorities should be given to the continuation of gas production, an appropriate increase in the state participation or the government's take, and the utilization of alternative fiscal regimes including Production Sharing.

For the 21st Bidding Round, the Ministry of Energy stated that the bid round process could be resumed after amendments to Petroleum Act is finalized by the National Legislative Assembly.

Next, Khun Penchun will be discussing about the first half's operating performance.

PART 4: FINANCIAL PERFORMANCE



Khun Penchun Jarikasem
Executive Vice President
Finance and Accounting Group

For my session, I would like to provide a six-month recap of PTTEP's operating performance and demonstrate to you where we are, comparing to the target for the whole year. As to financial performance, three key elements that drive our bottom line are sales volume, selling price and costs.

Slide 10

Sales Volume & Unit Costs

Sales volume in 1H15 stood at around 326 thousand barrels BOED (barrels of oil equivalent per day). The bar chart illustrates that the domestic sales volume (displayed in blue) has dropped slightly but was compensated by the sales volume in Southeast Asia (displayed in green). Meanwhile, the bar in yellow has been contributed mainly from the Montara oil field. We have set the growth target of 2-3% for this year. As of today, we have achieved around 1.4% growth over 2014 level and we are hopeful that we can achieve our growth target by the end of the year.

As for the selling prices, they are affected by the lower oil price. The historical oil prices impact gas selling price in the future; therefore, the falling oil price since the second half of 2014 started to have noticeable impact on gas selling price in Q215. In 1H15, gas price stood at 7.66 USD/MMBTU, crude oil price stood at around 55 USD/barrel and the weighted average stood at 48.6 USD/barrel, significantly reduced by about 27% as compared to 1H14. Our profitability depends quite a lot on selling prices so whenever market oil prices drop our margins will inevitably be affected. Regarding the volume mix, the proportion between gas and liquid remains pretty much unchanged (70:30).

Moving on to the unit cost, it has been our goal to cut back our unit costs. The amount of unit costs we can reduce signifies the additional profit we can realize. The average operating expense in 1H15 is around 6 USD/BOE, comparing to 1H14 which included a considerable amount of expenses from Montara's development well H5; approximately 50 million USD. The average exploration expense in 1H15 is around 0.87 USD/BOE, while it was 1.47 USD/BOE in 1H14. From these figures, it may seem that the exploration expense is rather low comparing to 2014. Bear in mind however that well write-off is dependent also on the timing of well evaluation getting completed. Therefore there is a possibility that we see larger exploration write-off during the remaining quarters.

The general and administrative expense (G&A) is what we have been looking to reduce. We have exercised our best efforts to control cost in every aspect of our operations. We currently aimed for at least 10% reduction in G&A expense from 2014's average of 3.10 USD/BOE. We are quite confident that, by the end of 2015, our cost-saving efforts will certainly bring the average G&A expense down to be better than that of 2014.

PART 4: FINANCIAL PERFORMANCE (continued)

On the other hand, royalties varies with our sales, which is generally 12.5% of the total sales since a majority of our sales were from the Gulf of Thailand under Thailand 1 regime.

For finance cost which stood at 2.39 USD/BOE in 1H15, it included financial expense or cash being paid out with regards to the interest payable of over 1 USD/BOE, and the accretion for decommissioning cost accounted for roughly 0.80 USD/BOE. Higher accretion is due to the upward adjustment of the decommissioning cost at the end of 2014, and this led to the increase of depreciation expense as well.

For DD&A, a significant portion of the increase in DD&A came from an increase in decommissioning cost. The DD&A has risen to 24.62 USD/BOE in 1H15.

The overall unit cost in 1H15 stood at around 41 USD/BOE while that of 2014 stood at 43.6 USD/BOE. It now depends on whether or not and to what extent we will be able to control our costs. Also, royalties will play a part in the bottom line.

Slide 11

Cash Flow Performance

The next topic features PTTEP's cash flow performance from our operations. In 1H15, we have an operating cash flow of 1,237 million USD. We expect our full-year operating cash flow will be sufficient to cover our planned investment.

Simply said, DD&A element and the profit margins represent operating cash flow for the company. For DD&A, it gives us cash flow around 3 billion USD, that is DD&A per unit of 24.6 USD/BOE multiplying by the annual sales volume of around 120 million barrels. Moreover, the profit margins will also give additional cash flow to the company.

The CAPEX for 2015 has been estimated around 2.5-2.6 billion USD, so the cash flow of 3,000 million USD alone is more than adequate to cover expenses to maintain our production through to the end of the year.

Slide 12

Financial Position

PTTEP's capital structure still remains strong, with the total asset size of approximately 22 billion USD. Our debt burden was around 4,200 million USD, while our cash flow was around 3 billion USD as mentioned previously. The D/E ratio displayed here has taken into account the total debt in the calculation. If we calculate using net debt, the D/E ratio will be much lower.

To sum up, with regards to the capital structure and cash flow, PTTEP have a very strong position. With this, we will be able to venture into new projects or M&A deals once good investment opportunities come up.

PART 4: FINANCIAL PERFORMANCE (continued)

Slide 13

Net Income Breakdown

Moving on to the net income breakdown, I would like to emphasize once again that in 1H15 our net income was around 300 million USD, after the deduction of non-recurring items of 141 million USD. If we look at the actual operating performance, the recurring net income stood at around 440 million USD. The decrease from the previous period was in line with the reduced oil price.

I would like to take this opportunity to explain about the non-recurring items once again in order to better rationalize the decrease in net income in 1H15. One of the main non-recurring items is deferred tax. We have been discussing about the deferred tax for quite some time that it is difficult to mitigate such non-recurring item through hedging initiative. This non-recurring deferred tax comes from the fact that we use US dollar as our functional currency used for accounting and financial statements while we use Thai Baht for Thai tax filing.

The principle behind this complexity is that once we acquire any assets, we need to use certain exchange rate to convert the value of such assets. As we operate, the exchange rate has continuously changed, so we need to adjust the exchange rate to reflect the true worth of the assets on the accounting balance sheet. If the exchange rate is weak, the asset value will decrease. This implies a decrease in depreciation expense and consequently results in higher amount of tax. This is how the deferred tax has originated and it is likely that this will continue until the Thai Revenue Department allows us to file taxes in the US dollar currency, eliminating the mark-to-market of asset or the asset value adjustment. Furthermore, another non-recurring tax expense relating to foreign exchange rate was tax expense from gain or loss on intercompany loans which we are now trying to mitigate through balancing assets and liabilities. The efforts have succeeded to a certain extent but not yet 100%.

Actually, this is our current topic of discussion with Thai Revenue Department and there is a tendency that they will allow us to utilize the US dollar to file taxes. However, the process might be time-consuming because it involves two major tax laws; Petroleum Income Tax Act and the Revenue Code.

Another non-recurring item is foreign exchange gain or loss from cash and account receivables denominated in Thai Baht. Under the gas contracts, the exchange rate is part of the gas price formula, and it refers to historical exchange rate. There is also an issue of lag time between such exchange rate and the rate on the date we can collect payment. The loss on foreign exchange of 53 million USD shown on the slide included realized exchange loss from transactions in Thai Baht and Canadian dollar against the US dollar. For the Canadian dollar, the previous balance has been settled and the foreign exchange issue should be solved from now on. Moreover, there is another currency; Brazilian Real, that we have prepared cash in Brazilian Real for drilling and exploration activities in Brazil, but the project has been slightly delayed therefore we have to marked-to-market the cash in Brazilian currency.

PART 4: FINANCIAL PERFORMANCE (continued)

Going forward, please be assured that we have put our best efforts in managing and monitoring gain/loss from exchange rate. Please allow me to touch on the 53 million USD losses again, that the realized loss accounted for only 11 million USD while the remaining amount was from mark-to-market adjustment.

Speaking of oil price hedging loss of 50 million USD and the hedging policy, I would like to clarify that, with the effect of oil price hedging based on the oil price level that we have forecasted, we are able to guarantee our desired financial performance. At the end of 2014, there were discussions around the declining oil price trend and the hedging initiatives. There are several hedging instruments available; securing floor price by buying put option, collars, or the swap method. Each instrument carries different costs. For instance, if we wish to secure only the floor price, we might be disadvantaged from a very high premium payment. The company reached consensus that we would use a combination of collar and swap which we will to represent the best balance between premiums and our view on oil prices. The point is that we choose the instrument that deems the most suitable for our situation. Even it says on the slide that we have a hedging loss of 50 million USD, in fact we have realized gains of 13 million USD in the first half suggesting that the market oil price was lower than the floor price we have secured. However, the unrealized loss of 63 million USD was for the remaining hedging position in the second half of the year, valued by way of mark-to-market with reference to Brent forward prices as at end of June 2015. If you still recall, the oil price at the end of Q215 (around the end of June) was very positive. The higher oil price is always better to PTTEP even if it would result in no gain or even losses in our oil price hedging as that would suggest the market fundamentals for our industry has improved. All in all, the hedging instruments we have used are collar and swap, of which the average floor price is around 50 USD/barrel. The actual market price right now is lower than 50 USD/barrel. If the downward oil price trend continues, we will still be able to realize some gains from the guaranteed floor price. We need to consider a lot of factors in making a decision about hedging. The purpose of hedging is not about profit speculation but rather to identify the oil price range that we would be satisfied with and secure our hedging position. I hope this has provided you a better understanding regarding our hedging policy.

Slide 14

Dividends

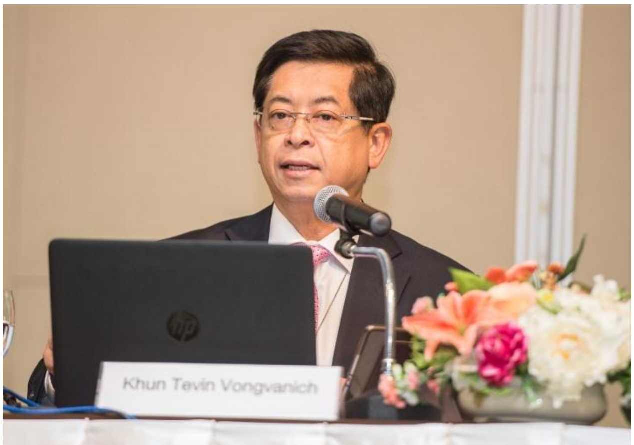
We have already announced the dividend payout of 1 Baht per share for 1H15. The policy is that the payment ratio is not less than 30% of net income. However, the payout ratio was around 40% in previous years, except in 2014 when we recorded impairment and we considered that such impairment did not affect our cash flows.

Once again, let me repeat that those unrealized items, such as the mark-to-market losses, do not have any adverse impact on the Company's cash flow.

To sum up my presentation, despite the low oil price environment, we have successfully managed to keep our unit costs and other operating expenses low, enabling us to compete with other key players in the exploration and production industry. Khun Tevin will now show you the company's outlook.

PART 5: COMPANY OUTLOOK

Khun Tevin Vongvanich
President and Chief Executive Officer



Slide 16

Revisiting 2015 Priorities

Moving on to the outlook section. This slide reiterates the focus and priorities we set for 2015. First item, sales volume in 2015, we initially set off at 6% growth target. This was subsequently revised down to 3% so as to better align ourselves with the domestic gas market condition we saw during the first quarter.

As previously explained by Dr. Somporn, despite the fact that gas demand in Thailand continues to grow year-on-year, domestic gas supply has faced competition from alternative supply sources with Myanmar gas and LNG taking up a larger proportion in 2015. Increased supply from Myanmar in 2015, compared to 2014, primarily as a result of the start-up of Zawtika gas field in which we hold 80% participating interest; hence such increased supply would support our sales volume growth. Share of LNG imports to Thailand's total gas supply also increased in 2015 partly due to competitiveness of spot LNG price over selected gas fields in the Gulf of Thailand. As you would be aware, domestic gas is subject to long-term pricing formula which has a lag time in price adjustment. During this price transition period and until the falling oil prices have fuller effects on gas price, the gas buyer naturally would look to optimize its cost of gas supply and has sought to lower gas offtake beyond the DCQ level for a relatively more expensive contracts using carry forward volume. As a result, our revised sales volume growth target of 3%. In achieving this target, we have to also focus on completing and bringing the Algeria Bir Seba project online within 2015.

Second priority relates to maturing projects in the pre-development stage. In this currently low price environment, we have to do a more thorough study around development options, find the most optimized development plan and, very importantly, capitalize on industry cost deflation. For us to proceed, the project has to demonstrate a satisfying return at the price outlook we believe in. As for projects in Myanmar, we carry on with the exploration and appraisal activities at MD7, MD8, M9, M11, M3 and other onshore fields – partly in accordance with their work commitments.

PART 5: COMPANY OUTLOOK (continued)

Slide 17

Project Development Candidates

As for projects in the pre-development stage, Contract 4 (Ubon) and Mozambique (MZ Area1) are two key candidates - both advancing toward the Final Investment Decision (FID) gate expectedly with FID window between Q4 2015 and Q2 2016. There has been considerable progress for the Mozambique project during the past quarter. Anadarko – the project operator – has selected the EPC contractor for onshore LNG park development. The Decree Law is now ratified by Mozambican Government. This is a critical step that lays necessary foundation for other commercial contracts to the project. Enough gas resource to underpin the initial development has also been proven. The key next step is for the operator to finalize gas sales agreements converting the signed HOA to SPA, complete project financing arrangement as well as to negotiate and conclude various commercial agreements between project partners and with the Government. With the tasks remained, I expect FID could slip into 2016. However as the project takes 4-5 years to develop, first gas could still be achieved in 2020 by which time we expect oil price and hence LNG price to improve.

On the Algeria Hass Bir Rakaiz project (HBR), we are running appraisal campaign to better define the size of oil resource in the area. On the Mariana Oil Sand project in Canada, with the WCS price having dropped to around 25USD/bbl, admittedly the project is faced with great challenge. We will be focusing on evaluating project development concept and reviewing project costs – essentially looking for ways to push cost down as much as possible. Based on our self-imposed target, we still have until 2018 to decide on an investment. Until then, we will review how much we can improve the project economics from the work we are currently undertaking and whether oil price improves enough by then for the project to become feasible.

Slide 16

Revisiting 2015 Priorities (continued)

The third item relates to M&A. Again as previously described by Dr. Somporn, M&A in the upstream sector has been relatively subdued all around. In this low price environment and the liquidity situation for several oil companies that has not been dire enough for them to resort to asset divestment – they may have to endure losses and impairments but still have cash flow to fund operations, the gap to price expectation by seller and buyer hence still persists. But when the right opportunities come along, we would be in a ready position to capture them. Our primary M&A focus is still within Thailand and Southeast Asia. As for unconventional in the U.S., I think shale oil/shale gas for selected basins in the US has proved that they can survive even in the price environment like today as the industry was able to tighten up the costs and improve production efficiency. And so this is an area that PTTEP should continue to look into. However our approach will be more cautious. We are spending time to build up necessary competency, review opportunities more thoroughly and make any investment decision more effectively.

PART 5: COMPANY OUTLOOK (continued)

The last priority I would like to address relates to our cost savings effort. At a good time, many of us, oil companies, may not have been fully cautious on cost controlling. That now has to change for the business to survive in today's environment. For our 2015 capital and operating expenditure budget, we made the first sizable cut late 2014. The effort continues onto 2015 under the Save to be Safe campaign and, as a result, we revise the 2015 budget down by further 14%. This includes cost reduction initiative as well as rescheduling some of our exploration activities especially those in high-cost, high-risk area.

We will continue to focus on all of these priorities through to the year end. In addition, I would also like to share with you key challenges I see for the company in the second half. One is none other than oil price. We saw, after a short recovery in the second quarter, oil price has now dropped again to lower than $50/bbl. With such volatility, we have hedged some of our liquid volumes at a floor price which would partially help protect our revenue stream at such price level. The oil price movement and its outlook will obviously also be one of the key determinants to the feasibility of various pre-development projects we have in our pipeline. Two is foreign exchange. Besides oil price, Thai Baht currency has been very volatile this year and continues to weaken. Our business is naturally hedged on USD with a majority of our revenues and costs in dollar. We are exposed to currency risk through the discrepancy in our functional and tax submission currencies whereby we operate on USD but file for tax in Thai Baht. Weakening Baht against USD causes us to record additional deferred tax expense. Since the end of Q2, Thai Baht still continues to weaken and, at this rate, we will be faced with further deferred tax expense. Besides PTTEP, this exposure to foreign exchange would likely be an issue to any foreign companies that select Thailand as the destination for investment and still maintain foreign functional currency. We have addressed this to the Ministry of Finance and hope that a solution will be found in due course as it would also support the Government's policy to promote Thailand as a competitive regional financial and investment hub.

The other point I would like to highlight is the Bir Seba field in Algeria. The production capacity will be around 20,000 barrels/day. The project is now in commissioning phase and oil has now been introduced to the plant. The project is on track for production start-up in September 2015.

Slide 18

SAVE to be SAFE Update

With our latest cost reduction efforts, we have now revised 2015 expenditure budget from 4,832 million USD to approximately 4,200 million USD. Budget for operating expenses has been cut by 9 percent, primarily from integrated field activity planning, optimized maintenance program and logistical operations as well as various G&A expenses. If achieved as planned, this will have an immediate positive impact on our net profit for the year. Budget for capital expenditure has been cut more extensively by 17 percent comprising genuine reduction as well as rescheduling of activities.

Contributing to the CAPEX cut includes reduction in well costs by 5 percent – 25 percent for operations in the Gulf of Thailand and Myanmar. This will be achieved through drilling faster by simplification of well design and optimization of work process, along with some impact from contract re-negotiation. Cost to install new wellhead platform is expected to be cut back by up to 5 percent for selected projects through a more fit-for-purpose design. Lastly and again as earlier mentioned, we have rescheduled some of our exploration activities especially in high-cost, high-risk projects.

PART 5: COMPANY OUTLOOK (continued)

Slide 19

"LEAP" through the 30-Year Journey

This year marks the 30th anniversary of PTTEP's establishment. Under the theme "LEAP", looking through the company's history, the first 10 years were dedicated to 'learning' (L) and emerging as Thailand's national E&P company, throughout which period the organization worked as non-operating partner to international E&P companies in domestic projects. During the next 10 years between 1995 and 2005, the company 'enhanced' (E) its capability to become operator to domestic E&P projects. From 2005 to the present, I believe we can confidently say that the company has 'advanced' (A) to become internationally recognized. As a testament to how much the company has grown from non-operating partner to an operator, PTTEP now operates a total of 20 project globally – half the number of projects we invest in. For these operations, we have been drilling around 200 wells and completing roughly 10 wellhead platforms a year. This has been a profound ground for our people to build capabilities and skills upon.

As a Thai company, PTTEP has been a constant contributor to the Thailand with its economic footprint enlarged as the company grows. Our production contributes to 30 percent of Thailand's oil and gas production. We have spent over 600 billion Baht in investment and expenditure in the Thai E&P industry over the last 10 years. Our domestic activities drove approximately 1 percent of the country's GDP. We paid over 60 billion Baht of corporate taxes and royalties annually in the past three years. Lastly, with the operations that we have, the company has grown to become a financially healthy company with strong cash flow and cash reserve base ready to capture opportunities for future growth.

Slide 20

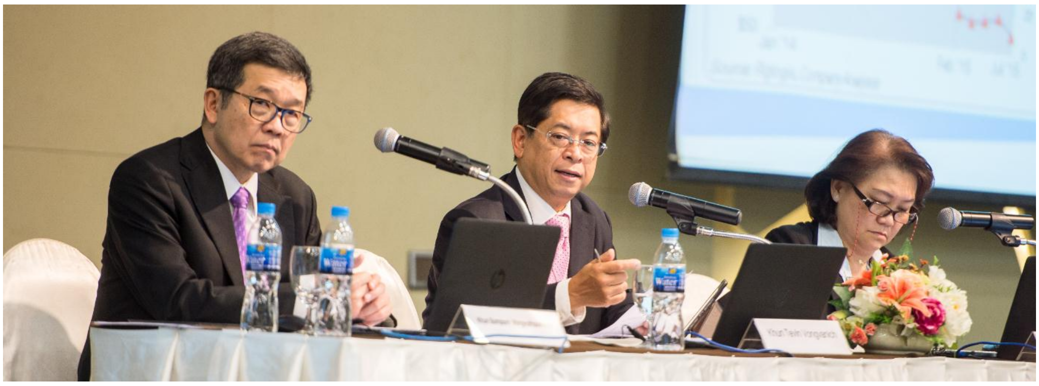
"LEAP" through the 30-Year Journey

Looking into the future, we hope to make continuous 'progress' (P). Our base producing assets, displayed in blue, are reaching their peak and, without new investment, will eventually enter a decline phase. While efforts will be spent on maintaining and prolonging production as much as we can, in the future years we will need to replace declining production with others of our existing assets – these assets include the 5 – 6 projects I mentioned earlier. With start-up of these projects, not only could our production level be maintained, we would see growth to our volume as well – only that the growth rate won't be same as that seen in the early years of our organization.

The 600 KBOED production target has been revised for 2025. In order to grow further and achieve this target, we need to look at growth opportunities through acquisitions as well as success through drill bits (exploration). I believe we have made a satisfactory progress in becoming a respectable E&P company with sizable production base. However, growing from the size we have become, we could not expect to healthily achieve growth at strong the rate as we did in our early years. What is presented here and at the target we panned out is what I believe a sensible scenario.

I hope this gave you a good overview to PTTEP's 30-year journey, as well as our business goals and outlook in the future. This brought me to the end of the presentation today. Let's now proceed to the Q&A session and if any of you have any questions, we are pleased to give you clarification.

PART 6: QUESTIONS & ANSWERS (Q&A)



Question # 1

Do we expect average rig rate and production cost per unit to decrease?

Answer from PTTEP Management

In the short-term, we expect average rig rate to be flat due to long-term nature of contract. However, from market data, we see new award rig rates to have decreased as a result of low oil price environment and spending cut by E&P companies. Regarding production cost, our cost saving initiative "SAVE to be SAFE" will take more visible effect next year and should help keep our production costs at no higher than the current level.

Question # 2

Do potential changes in management team effect company's strategy and target?

Answer from PTTEP Management

Company's strategy and target were formulated based on inputs from multi-disciplinary management team and was subjected to thorough consideration of the company's top management board and BoD, not from one particular person. Based on our strategic framework "BIG, LONG, STRONG", we currently put an emphasis on "STRONG", as in financial strength to weather the currently challenging market environment. For "BIG", we aim production target at 600KBOED in year 2025, revised from previous target of achieving the production level in 2020. For "LONG", we have set R/P target at 10 years but, considering that a majority of our reserve is from Gulf of Thailand which has fractured reservoirs by their geological nature and, as a result, more capital is needed to prove up reserves through extra wells (unlike reservoir that based on a single structure like at Yadana which only requires a few wells to determine the field's proved reserve), we have to also give consideration to optimized utilization of our CAPEX. For "STRONG", we aim at above industry average in ROCE. We also benchmark ourselves with peers in each of the same geographical areas.

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

Question # 3

Are there any concerns when considering dividend payout?

Answer from PTTEP Management

There are several factors when considering dividend payout e.g. potential cash outflow in the near future and constant dividend payout ratio. We would like investors to focus at the whole year dividend payout.

Question # 4

Can we assume the 2015 operating cash flow be annualized number from half year figures?

Answer from PTTEP Management

The 2015 operating cash flow cannot be annualized from half year figures since there was significant cash outflow from tax payment (mainly for 2014 taxable profit) in Q2 2015 around $0.9 billion. The 2015 operating cash flow is estimated to be around $3 billion, based on current oil price level, which is enough for our revised CAPEX plan (around $2.5 billion). Based on the current average selling price of $47-48 per barrel and unit cost of around $40 per unit, we still have margin around $7-8 per barrel ($5-6 per barrel after tax, assuming tax rate of 26%). Additionally, from the unit cost, there is non-cash component i.e. DDA of $24 per unit which would also contribute to our operating cash flow.

Question # 5

What is PTTEP's hedging policy for 2016?

Answer from PTTEP Management

Previously, we hedged year-by-year. As for 2016 hedging strategy, our policy would remain same - hedge to guarantee baseline cash flow. We are still working on the details; current price environment and outlook will certainly be part of the equation, and whether and what level of hedging would be appropriate if price sustains at very low level. Also we have to work on aligning investor's understanding that oil price hedging will result in fluctuation of earning from mark-to-market gain/loss.

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

Question # 6

Due to the low price of LNG, will there be higher import of LNG? How would that impact PTTEP's production? and any impact from the carried forward volume based on gas contracts with PTT?

Answer from PTTEP Management

Regarding the gas selling price, there is a lag time in gas price adjustment for the low level of oil price to be reflected. Gas selling price is adjusted periodically with reference to the historical oil prices. Even so gas selling price of majority of gas fields in Gulf of Thailand are still competitive to spot LNG. Only a few domestic gas sources, i.e. Contract 4, that see temporary price superior to spot LNG. But all gas is supplied under long-term contract with take-or-pay obligation and limited allowance for carry-forward volume usage, hence some but expectedly limited impact may be felt.

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.*