PTTEP Q1 2016 Analyst Meeting
Edited Transcript

Venue: *Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand*
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15:00 – 16:30 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 Q1 2016 Analyst Meeting for the announcement of the Company's operating performance in the first quarter of 2016. 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

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

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

I would like to extend greetings to all analysts, investors and honored guests. As usual, we will be covering key topics on the industry highlights, financial results and the business outlook.

PART 2: SAFETY PERFORMANCE

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Slide 3

Our priority on safety and environment

The first topic is safety and environment, on which we place a great emphasis. The key parameter with regards to safety is the loss time incident frequency (LTIF). As of today, the LTIF is 0.09 incident per million man hours, which is lower than the previous year and is believed to be in the first quartile of the industry average. The Company's goal with regards to safety is 'target zero' i.e. to achieve zero LTI or zero accident in all areas of operations. The Company has been stressing the importance of safety, and through challenging, we believe that zero LTI is something that is achievable.

On the environmental aspect, we have set goals since 2012 regarding the emission of greenhouse gases, i.e. carbon dioxide, methane and other impurities that potentially have impact on the environment or worsen the global warming condition. The goal is that, by 2020, the Company will reduce the emission of greenhouse gases by 20% (in per unit of operation terms) from its 2012 base figure. To date, we are working on this roadmap towards the goal. All in all, safety and environment are two critical matters for our business operations.

Now Khun Suchitra will discuss about the industry highlights.

PART 3: INDUSTRY HIGHLIGHTS

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

Slide 5

Oil prices

Talking about the oil price, the oil price has constantly been descending since 2014 mainly because of the oversupply condition. In the previous quarters, the oversupply balance was around 2 million barrels per day (BPD). This led to the 11-year low oil price on January 20, 2016 for Brent at lower than 30 USD/barrel. However, crude price has rebounded from that point. This was because the oversupply condition outlook has improved i.e. the oversupply balance became lower than 2 million BPD. For supply side, more export volume from Iran around 0.5-0.7 million BPD after the sanction lifted seemed to balance out by lower U.S. production which is also likely to decline further. For demand side, there are certain levels of demand growth in India and China. In Q1 2016, crude supply was around 95-96 million BPD while demand was around 94 million BPD are growing which led to the oversupply balance of around 1.7 million BPD, reduced from 2 million BPD in the previous quarters.

For oil price outlook for the remaining three quarters, there are certain fundamental factors to watch out. Iran's production is expected to rise to or even more than the production level before the sanction at around 3.3-3.5 million BPD i.e. increase of around 0.5-0.7 million BPD. For U.S. production, it is expected to be around 8.9 million BPD, reduced from 9.4 million BPD in the previous quarters. The drop in the U.S. production is more or less offset with the additional supply from Iran. However, demand are still consistent and normally grows by about 1.2 million BPD. This leads to the improved oversupply condition.

Another factor which impacts to the oil price is supply disruption such as the attacks at oil and gas fields in Nigeria and wild fire in Canada which lower the supply around 1 million BPD. This disruption might not last over a long period but can have a significant impact on the oil price in the short-term.

PART 3: INDUSTRY HIGHLIGHTS (continued)

Slide 6

Global oil supply: closer look on key supply fundamentals

On the left hand side, the red line illustrates the U.S. crude production which has dropped to below 9 million BPD at the present. In the meantime, the onshore rig counts have gradually decreased, as depicted in the blue shaded area. These are the indicators that the U.S. supply will be decreasing, given lower number of rig counts and also a number of U.S. companies facing financial distress issues. Another major factor is supply from Iran which more supply into the global market is expected. Moving over to the demand side, crude demand generally expects to grow in accordance with the GDP growth in each region including China and India, which suggests a possibility of crude demand growth of 1.2-1.4 million BPD for this year. Nevertheless, despite the lower U.S. rig counts, but once the oil price increases to above 50 USD/barrel, it is possible that more U.S. production could come in, since there are a number of wells already drilled and ready for production.

All in all, we would need to watch out for those fundamental factors affecting oil prices for the remaining three quarters of 2016 that to what extent supply and demand will fluctuate and balance out.

Slide 7

Thailand updates

Looking back to Thailand's natural gas supply and consumption, from the graphs the natural gas supply and consumption during the first two months of 2016 was lower than FY2015, which was due to seasonality effect; normally the consumption during the first quarter of the year is quite low and reach its peak of the year during the third quarter. Even it seems like the consumption during the first two months was low, the average consumption for the whole year could stable or possibly rise, depending on the economic condition.

Another factor affecting the Company's financial performance is foreign exchange (FX). From the graph, the broad blue-shaded range shows the analysts' forecast of the FX, ranging from 34.5-40 Baht/USD. FX is one key factors which has significant impact on the Company's financial performance as it is used in the calculation of tax and hence net income.

Moving into Thailand's upstream energy reform, there are two key events; the expiring concessions and the new bidding round. Progress for the new bidding round was a bit more advanced than the issue of expiring concessions. The new bidding round could be resumed after the finalization of amendments to the Petroleum Act which are to be incorporated in the agenda of National Legislative Assembly (NLA)'s meeting in May or June.

With regards to the expiring concessions, conclusions are expected to be endorsed by the National Energy Policy Council (NEPC) in May, which will subsequently be proposed to the cabinet and then NLA. It has been discussed among the working team that the direction can either be negotiating with the current concessionaires or opening for bidding, but the solution for this matter is still unclear. This sums up updates on the 21st bidding round and expiring concessions matters.

PART 4: FINANCIAL RESULTS

Khun Pannalin Mahawongtikul
Executive Vice President,
Finance and Accounting Group

Slide 9

Sales volume & unit costs

Let me summarize the key financial performances for Q1 2016 which have already been reported to the Stock Exchange of Thailand together with management discussion and analysis (MD&A). The Q1 2016 operating performance was quite impressive. We were able to maintain production at the expected level. The highlight is the unit cost which turned out to be considerably lower than analysts' consensus. For Q1 2016, the unit cost was 28.57 USD/BOE while the weighted average selling price was 35.08 USD/BOE. The reduced unit cost led to improvement in the recurring net income.

Let's look into the key components of unit cost. For depreciation, depletion and amortization (DD&A), a chunk of reserve has been booked at the end of Q4 2015, causing DD&A per unit in Q1 2016 to be considerable low. However, we still expect DD&A per unit for FY2016 at around 19 USD/BOE.. Meanwhile, finance costs increased QoQ due to a slight increase in interest rates and a minor one-time adjustment in Q4 2015, which we expect that the finance cost in Q1 2016 of 1.94 USD/BOE can be a representative for FY2016. At the same time, royalties decreased in line with the selling price.

For G&A expenses which is usually low in the first quarter of the year, G&A expenses in Q1 2016 was 1.08 USD/BOE, whereas G&A expenses in Q4 2015 was 3.16 USD/BOE which included an adjustment relating to actualization of expenses charged to partners at the year-end approximately 45 million USD. The exploration expense dropped QoQ, since four wells were written off in Q4 2015 while two of the exploration permits in Australia amounting to 13 million USD and one well were written off in Q1 2016. The operating expenses also decreased from 5.76 USD/BOE to 4.48 USD/BOE, mainly because the provision for stock loss from net realizable value dropped by roughly 0.6 USD/BOE and maintenance costs also dropped considerably due to 'Save to be Safe' cost reduction campaign. All these factors drove down the unit cost. For the remaining quarters of this year, our target is to reduce the unit cost by at least 10% i.e. from about 39 USD/BOE in FY2015 to no higher than 34 USD/BOE for FY2016.

PART 4: FINANCIAL RESULTS (continued)

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Cash flow performance

The Company's EBITDA margin was around 74% in Q1 2016, which was slightly higher than normal due to relatively low unit cost in Q1 2016. For FY2016, we expect the EBITDA margin to be slightly lower from Q1 2016 level to be around 65% since the gas selling prices are likely to be on the down side which would impact the EBITDA margin. The recurring net income in Q1 2016 was 116 million USD, while the net income was 157 million USD which included the non-recurring items of approximately 40 million USD.

As for the sources and uses of funds in Q1 2016, our operating cash flow remained healthy at 818 million USD. After deducting with CAPEX spending and interest/financial costs paid totaling 376 million USD, there remained rather high free cash flow of more than 400 million USD.

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Financial position

This slide shows the Company's capital structure. Our assets increased slightly from the previous year-end. Cash on hand (including short-term investment) also increased by approximately 440 million USD to be around 3.7 billion USD. The weighted average cost of debt increased slightly from 4.32% to 4.42%. For debt repayment schedule, we have rescheduled the repayment of loan amounting to 575 million USD which was originally due next year to be due in 2021. Thus, the average loan life was extended from 8.17 to 8.54 years.

Slide 12

2016 liquidity outlook

This slide provides a guideline on our product prices and weighted average selling price (ASP) for FY2016. If the FY2016 Dubai price stays at 50 USD/barrel (or 0% change from average FY2015 Dubai level), our FY2016 liquid selling price should stay at the similar level as average FY2015 liquid selling price, as it moves largely in line with crude price though our liquid selling price is slightly better than Dubai price. For gas selling price, even if the FY2016 Dubai price does not move from average FY2015 level, our gas selling price would drop around 20% from FY2015 gas selling price level due to lag time in price adjustment. These result in the ASP to decrease by around 10%.

If FY2016 Dubai price drops by 20% from average FY2015 Dubai level to be around 40 USD/barrel, our liquid selling price would drop proportionally by about 10 USD/barrel. Meanwhile, gas price would drop by slightly more than 20%. This results in a drop of the ASP by around 20%.

In the case that Dubai price drops by 40%, the liquid selling price would drop by the same percentage, while the ASP would drop by around 30%. These are the guideline for product prices for FY2016.

In terms of liquidity outlook, we have simulated 2 scenarios for the Dubai price; at 35 and 45 USD/barrel. We are certain that these 2 scenarios would generate sufficient operating cash flow to cover our CAPEX spending. Furthermore, even we have announced our planned F2016 CAPEX of 2.1 billion USD, we are continuously putting our efforts in further CAPEX reduction by around 10%.

This concludes key takeaways of PTTEP's financial results.

PART 5: OUTLOOK

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Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

RESET cost structure to maintain competitiveness

Talking about PTTEP's strategies and directions moving forward, we will be operating the business under the 3R principle; reset, refocus and renew. The key theme of reset is to reset our execution and cost structure to stay competitive, maintain production and safety record. The emphasis of refocus is to put priority to significant projects and those that bring opportunities for growth. Most importantly, the highlight of 'renew' is to prepare for competencies required for the future.

To elaborate about 'reset', we aim to maintain our production level to be consistent with that of the previous year. The anticipated production for the whole year is around 322 KBOED. With regards to costs, we have been communicating to stakeholders on a regular basis that the execution to bring down the cost is in progress. In supplement to the OPEX and CAPEX adjustment, the goal is to reduce our unit costs by not less than 10% where the continuation of efforts are present here and there, such as revisiting the reduction of procurement costs since the majority of PTTEP's expenses come from third-party contractors. So with the drop in oil price, it is necessary for us to reduce costs. Also, we need to be more stringent with regards to investment decision in order to ensure returns. Additionally, we have been trying to extend the scope of several activities that we have succeeded in the past such as oil well exploration. Internally, we regard this endeavor as a factory model, meaning that the performance or achievement, for example, of exploration activities, must be standardized in order to accelerate the turnaround time for exploration activities with minimum errors. So the scope is not limited to oil well drilling, but has been extended to construction of platform, continuation of platform to well drilling and production in order to make it a standardized model. Since the majority of our production and investment is based in the Gulf of Thailand, it is necessary to think ahead in terms of continuous investment and improvement of facilities in large quantities. Hence, if we are able to incorporate this model into our activities, we can then bring down unit costs.

As a guideline, the current average gas price is around 5.5 USD/MMBTU while we are doing our best to maintain sales volume to be consistent with that of 2015. The EBITDA margin in 1Q16 has been quite exceptional due to satisfactory unit cost performance. It is believed that the EBITDA margin for the whole year will be approximately 65%. Last but not least, the unit cost shall not exceed 34 USD/BOE.

PART 5: OUTLOOK (continued)

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Advancing for longer-term growth

As mentioned, the objective of ‘refocus’ is to look for potential opportunities for growth and values, while ‘renew’ is the preparation for the future. As a matter of fact, all the initiatives and activities under the 3R must be executed in parallel in order to take effects as expected.

The focal point of ‘refocus’ and ‘renew’ is to identify our critical assets and projects such as the Mozambique project, whereby all the relevant partners are putting their best efforts in concluding the project on a continuous basis. For the Algeria Bir Seba, the last well has been completed as part of the appraisal campaign. The exploration program prior to this one has been successful and the news has been updated to the Stock Exchange of Thailand already. After the completion of this exploration program, we will be analyzing the potential and identifying ways to develop and commercialize the field, with the objective of bringing down the costs to accommodate the current oil price scenario.

In terms of exploration, our current portfolio is not too diverse. We have projects in Myanmar, Brazil, and Australia. We tend to place emphasis on Myanmar and also Brazil where we believe has a potential to develop further. For projects in Myanmar, we are currently conducting 2D and 3D seismic surveys both onshore and offshore. The exploration plan shall be developed upon completion of the seismic surveys.

For projects in Brazil, the Barreirinhas AP1 Project is now under the 3D seismic survey phase as an initial preparation.

With regards to new opportunities, our main focus lies in Thailand and Southeast Asia. If possible, we would prefer to enter into M&A deals with producing or near-term producing assets or projects that are in the initial development phase or require investment for further development in order to acquire assets with long lifetime. Meanwhile, we are looking into strategies for long-term security, for example, Thailand might need to gradually increase the import of LNG. Thus, negotiations have been established with PTT as a purchaser of gas, to determine partnership opportunity with PTT and how the Company can jointly invest in the procurement of upstream products or gas in the near future.

And this summarizes the Company’s strategies and directions moving forward in 2016.

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Key Takeaways

We aim to achieve stable sales volume and production level with on-track safety records. Meanwhile, the cost structure must be managed in order to secure competitive operating performance in this year and years to come. The other important factor is to monitor our financial stability to ensure ample liquidity with solid cash flow and significant cash on hand. This time actually marks the right occasion to enter into M&A deals or identify exploration opportunities as a reserve for the future. As mentioned, our current exploration fields are in Myanmar, Brazil and Australia, but still quite limited in Thailand. So it is advised that we encourage more domestic exploration activities. This brings me to the end of the session of PTTEP’s operating performance in 1Q16.

PART 6: QUESTIONS & ANSWERS (Q&A)

Question # 1

Could you please update the progress for LNG project in Mozambique?

Answer from PTTEP Management

There are four main elements that the project is currently making progress – regulatory, commercial, project finance and technical. On regulatory, the Project is in the final stages to negotiate and conclude all contractual agreements with the government of Mozambique. On the commercial front, over 8MMTPA of non-binding HOAs (of which PTT engaged approximately 2.5 MMTPA) have been secured. The Project is currently working to convert to binding sales and purchase agreements. The Project also looks to take advantage of the current low oil price to reduce EPC cost.

Question # 2

Please discuss about drilling activities in Q1 2016

Answer from PTTEP Management

Drilling activities of producing assets in order to sustain production were being progressed as normal. Exploration drilling was relatively lower, comparing to the past few quarters, due to the postponement of high-risk/high-reward.

Question # 3

What are the potential upsides/downsides of the company's target sales volume in FY2016 of 322KBOED (similar level as FY2015)?

Answer from PTTEP Management

The company aims to achieve stable sales volume in FY2016 at the similar level as FY2015, while reduce CAPEX and expenditures at least 10% from 2015's level. There could be minor potential upsides/downsides e.g. gas nomination as a consequence of gas demand growth from the economic situation and LNG spot prices.

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

Question # 4

With the unit cost in Q1 2016 of 28.57 $/BOE and the FY2016 unit cost guidance at (lower than) 34 $/BOE, this signifies higher unit cost for the remaining quarters. Which unit cost components are likely to increase for the remaining quarters?

Answer from PTTEP Management

First, DD&A is expected to be around 19 $/BOE for FY2016, subject to recognition of more assets and reserve added. Second, maintenance activities are usually low in Q1 and higher in Q2/Q3, which would result in higher operating expenses in later quarters.

Question # 5

With the unit cost guidance of 34 $/BOE and if average sales price (ASP) stays at same level as Q1 2016 at 35 $/BOE, does this suggest slim net profit for the year?

Answer from PTTEP Management

The difference between ASP and unit cost would imply recurring net profit. There would also be effect from non-recurring items. However, as the company aims to achieve further cost reduction through the SAVE to be SAFE campaign and if we are successful at bringing down unit cost further, it would help the profitability.

Question # 6

There was a Thai company completed U.S. shale deal during the past quarter, what are situations around U.S. shale gas of the company?

Answer from PTTEP Management

U.S. shale could be an interesting opportunity for PTTEP. If we are to invest, we expect to start with a relatively small investment, before deciding possibility to expand as next step. Subsurface-wise we believe we have necessary capabilities. Key challenge would be above-ground activities, i.e. commercial, legal and regulatory, in which the company still needs to familiarize. We have to also weight our investment decision against opportunities in the Southeast Asia which is our core area and which we see M&A activities start to pick up from last year.

Question # 7

Regarding the progress of expiring concessions, what are the key milestones from now until the end of the year?

Answer from PTTEP Management

From the National Energy Policy Council (NEPC) meeting in May/June 2016, we expect certain clarity on how expiring concessions would be managed. Process after NEPC meeting depends on the recommendation – i.e. which fiscal regime to be used and whether it would require amendment to the law. If amendment to the existing law is required (i.e. a use of suggested fiscal regime that is not currently allowed under the existing Petroleum Act), it would then have to go through legislation process before the recommendation can be implemented.

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

Question # 8

What is the progress of the Petroleum Act? What could be the changes to the amended Petroleum Act, compared to the previous version?

Answer from PTTEP Management

The draft Petroleum Act has been reviewed by the State Council. After the State Council, the draft Act is to be submitted to Cabinet and subsequently National Legislative Assembly (NLA) – after which, if there is no objection, it could take around 3 months to be enacted and promulgated. The new Act will most likely provide contractual management options to the Government, including concession system, PSC and possibly other systems.

Question # 9

In the scenario which we see no progress to expiring concessions this year, will there be any implications to PTTEP's investment plan?

Answer from PTTEP Management

Our investment plan did not incorporate the possibility of concession renewal.

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

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.*