



Press Release: Rating Action

10-I-110
March 29, 2011

JCR Revises Rating Outlook of PTTEP to Stable

Issuer: PTT Exploration and Production Public Company Limited (PTTEP)

FC (Foreign Currency Long-Term Senior Debts): **A-** (to **Stable** from Negative)

LC (Local Currency Long-Term Senior Debts): **A** (to **Stable** from Negative)

JCR has revised the rating outlook of the foreign currency and local currency long-term senior debts of PTT Exploration and Production Public Company Limited (PTTEP) to stable from negative. This reflects the revision of the rating outlook of the Government of Thailand (GOT).

PTTEP's ratings are supported by its strategic importance in the GOT's energy policy, high profitability of its exploration and production (E&P) business, and its sound financial position and the limited amount of interest-bearing debts. In Thailand, natural gas was used to generate 72% of its total power supply in 2010. Demand for natural gas is projected to increase further in the medium term. PTTEP, as the country's sole state enterprise engaged in E&P of natural gas and oil, will remain an important entity for GOT in promoting its policy to ensure national energy security including stable power supply.

Meanwhile, the ratings are constrained by risks inherent in the E&P business, such as oil and gas price fluctuations, high operation risks associated with E&P and huge capital investment requirements. Fluctuations of oil prices could directly affect PTTEP's profitability. In the latter half of 2009, an oil and gas leakage accompanied by a fire broke out in an E&P project in the Timor Sea. This once again shed light on high operation risks inherent in the E&P business, although much of the resultant loss would be eventually covered by insurance. In January 2011, PTTEP acquired a 40% interest in an oil sands project in Canada. As the domestic reserves are gradually declining, PTTEP is expected to step up its investment in overseas oil and gas fields. JCR will closely watch how such overseas investment will affect PTTEP's proved mineral reserves, sound financial position, and prudent financial management.

(1) PTTEP's profile, its relationship with Thai government and PTT

Based on GOT's cabinet decision, PTTEP was established in 1985 by the then Petroleum Authority of Thailand as its subsidiary to undertake exploration, development and production of natural gas and oil. It was subsequently listed on the Stock Exchange of Thailand (SET) in 1993 even before the Petroleum Authority of Thailand was reorganized into PTT Public Company Limited (PTT) and listed on SET in 2001. GOT holds 51.4% of PTT's shares and PTT holds 65.3% of PTTEP's shares. Both PTT and PTTEP assume the status of "State Enterprise" under the Budget Procedure Act BE2502 (1959). Its strong links with GOT and PTT are evident in its board whose members include incumbent or former senior government officials from the Ministry of Energy, the Ministry of Finance and the Budget Bureau of the Prime Minister's Office besides PTT's President and CEO. PTTEP is a pivotal entity in the PTT group, accounting for 59% of the group's EBITDA in 2010.

In Thailand, 72% of its total power generation came from natural gas in 2010. Therefore, securing sufficient supply of natural gas to meet its increasing demand is a critical policy agenda for GOT's national



energy security policy, particularly for its stable supply of electricity. PTTEP is the country's only state enterprise engaged in E&P of natural gas, and its market share of natural gas produced and supplied within the territory reached 31% in 2010. Thus, PTTEP, as an entity to pursue national strategic interests in the field of natural resources development and production, will remain important for GOT in terms of national energy security to ensure stable power supply and lower its dependence on energy imports.

(2) PTTEP's exploration, development and production business

PTTEP is engaged in E&P of oil and gas both at home and overseas, and invests in natural resources projects abroad. The share of natural gas vis-à-vis oil in its production and proved reserves were 71% and 79%, respectively, in 2010. Now it operates 44 projects in 13 countries, of which 19 projects are located within Thailand and 20 projects are at a production stage.

In the E&P operations, PTTEP succeeded in 15 drillings out of 19 in 2010 (i.e., 79% of drilling success ratio). Its reserve replacement ratio was 1.33 for the last three year. As of the end of 2010, it has 1,043 million BOE (barrel of oil equivalent) of proved reserves, of which 59% are located in Thailand. The level of PTTEP's proved reserves has been generally stable in recent years while the reserve life index was, along with the increase in its production volume, shortened to 9.4 years (10.3 years when calculated for natural gas only) at the end of 2010 from 20.0 years at the end of 2003.

In the production operations, PTTEP's annual output in 2010 increased 16.0% year-on-year as commercial production started at Malaysia-Thai Joint Development Area (MTJDA) during the year, a further diversification of its production base. In 2011, commercial production has begun at the oil sands project in Canada, and will start in the oil fields at Vietnam 16-1 and Montara in Australia. Looking ahead, its production volume will further increase as more to follow in the coming years in Thailand, Algeria, Myanmar and so forth.

In the latter half of 2009, one of PTTEP's group companies had an oil and gas leakage accompanied by a fire in its exploration project in the Timor Sea, which resulted in incurring additional expenses of THB10.4 billion in 2009 and THB0.46 billion in 2010, respectively. Such loss will be covered by insurance up to USD270 million (approximately THB9 billion), of which it has so far received THB2.71 billion by insurers. The actual loss will be rather limited thanks also to tax relief measures. But the incident highlighted high risks inherent in the exploration business.

(3) PTTEP's financial position and financial management

PTTEP maintains high profitability on the back of its relatively low cost. In 2010, PTTEP's sales and EBITDA increased 19.0% and 30.2% respectively from the year before as PTTEP's average selling prices went up from USD39.5/BOE in 2009 to USD44.8/BOE in 2010 and the sales volume rose 13.2%. Its EBITDA margin and return on assets (EBITDA basis, ROA) stood at 73% and 30%, respectively, which were higher than those of its global peers.

PTTEP's gas sales prices reflect changes in oil market prices and the inflation rate under the formula defined in each of its long-term contracts. Therefore, any sharp and persistent falls in oil prices would directly affect PTTEP's income. However, PTTEP's break-even cost of USD32/BOE in 2010 including USD3.75/BOE of lifting cost and USD13.58/BOE of finding and development cost was way lower than its average selling price of USD44.8/BOE, indicating it still has some resilience to further oil price falls.

PTTEP's financial statements as of the end of 2010 put its capital/assets ratio at 50.3%. Its gross interest-bearing debt stood at THB77.8 billion, equivalent to 22.7% of total assets and 45.2% of equity (D/E ratio was 0.45). The amount of interest-bearing debt per proved reserves of oil and gas stood as low as USD2.48/BOE. On the assumption that demand for natural gas in Thailand will continue growing in the medium term, PTTEP has made an aggressive investment plan which calls for capital expenditures totaling THB330.2 billion between 2011 and 2015. As PTTEP is expected to step up its investment in overseas oil



and gas fields (including M&As) in pursuit of growth opportunities as the domestic reserves are gradually declining. In fact, PTTEP acquired a 40% interest in an oil sands project in Canada for USD2.28 billion in January 2011. PTTEP is expected to fund these massive capital investments with external debt financing in addition to its ample operating cash flows and liquidity at hand. Nevertheless, the gearing ratio should remain at a level matching its operating risks in the medium term as PTTEP is committed to its prudent financial management policy to keep the D/E ratio below 1. JCR will closely watch how such overseas investment will affect PTTEP's proved mineral reserves, sound financial position, and prudent financial management.

Yoshihiko Tamura, Chief Analyst
Satoshi Nakagawa, Senior Analyst

The primary rating methods applied to the ratings are posted on JCR's website (<http://www.jcr.co.jp>) "Sovereign, Public Sector Entities and Multilateral Development Bank Rating Methodology." The rating methods are subject to change or addition. However, the changes and additions including those that have been made in the past are posted in chronological order. Please refer to the rating methods above after checking by comparing the date of press release about the ratings with the release date of the rating methods (effective date of each of such rating methods).