PTTEP Q2 2017 Analyst Meeting

Edited Transcript

Venue: *Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand*
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13:30 – 15:30 Hours

Speakers: Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Khun Montri Rawanchaikul
Acting 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.

Introduction

Moderator

Welcome to PTTEP Q2 2017 Analyst Meeting, featuring the announcement of the Company's operating performance of the second quarter of 2017. Before we commence the session, please allow me to introduce the Company's executives who will be giving reports on the Company's operating performance.

1. Khun Somporn Vongvuthipornchai, President and Chief Executive Officer
2. Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group
3. 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.

PART 1: Safety Performance

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

Slide 3

Priority on Safety and Sustainability
Significant cost reduction without compromising on SSHE

We have maintained great emphasis on our safety performance. Activities in Q1 2017 included on-shore activities in new terrains in Myanmar which were quite tough and involved new contractors, leading to incidents in Q1 2017. However, in Q2 2017 the situation has resumed to its normal condition with zero incident. To date, our lost time injury incidents per million man hours is 0.13, which is considered better than that of the industry average.

For the Dow Jones Sustainability Indices (DJSI) in which its considerations involve three dimensions - business growth, social progress and environmental stewardship, we are now in the process of submitting information. One of the challenges is the ongoing issue on Indonesia claims, in which we are confident in our evidences on hand.

Now I would like Khun Montri to discuss the industry highlights.

PART 2: Industry Highlights

Khun Montri Rawanchaikul

Executive Vice President, Strategy and Business Development Group

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Oil Prices

A battle of increasing supply VS demand growth

In this section, I would like to go through the industry highlights, oil price situation, as well as the M&A opportunities. The graph shown that the oil price in second half of 2017 has been quite volatile in a rather narrow band which was mainly due to the imbalance between demand and supply. It could be seen that despite both OPEC and Non-OPEC's efforts in controlling on production output, the supply still remained quite excessive, while the demand could not cope up with the supply.

Throughout the second quarter of 2017, there have been a number of issues and movements, i.e. the instability in Middle East from the diplomatic tension in Qatar as well as the resumed production in Libya and Nigeria.

Turning to oil price outlook for the second half of 2017, Bloomberg suggested that the oil price will be around 53 USD/barrel, while PTTEP's forecast is in the range of 45-50 USD/barrel. From the preceding quarter, the oil price hit the lowest point at around 42 USD/barrel and currently fluctuates between 45-50 USD/barrel. Nevertheless, there are uncertainties regarding the market outlook in the near future with numerous factors involved i.e. uncertainties around economic policy in US as well as potential US sanctions against Venezuela and Russia. All things considered, we believe that the oil price will remain in this aforementioned range.

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M&A Updates

Improved deal flows as oil prices became less volatile

The charts clearly exhibit that the majority of M&A deals during 2016-2017 took place in North America especially in the US and Canada, while there were limited number of deal counts and of small deal value in Asia.

Henceforward, for the M&A outlook, the majority of M&A deals is going to take place quite rapidly especially in North America and much less so in Asia.

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Thailand Petroleum Act Update

Key terms for concession and PSC have been finalized

I believe that the concession expiry is now being a hot issue. I would like to update on new Thailand Petroleum Act which introduced the concepts of production sharing contract (PSC). This slide compares between two fiscal regimes; Thailand III and PSC. For the current regime, Thailand III concession system, the remaining amount from the revenue after royalties, Special Remuneratory Benefits (SRB) and tax will be net to the concessionaire.

For PSC, 10% of revenue will be allocated as the royalty. After that, there is a cost recovery in order to reimburse the production cost, at the maximum of 50% of the annual revenue. The remaining cost recovery can be accumulated and can be reimbursed in later years. Then, the revenue after deducted by royalty and cost recovery, so called "the profit", will be shared equally between the government and the contractor. Contractor entitlement, which comprises of cost recovery portion and contractor's profit, will be used as a basis to calculate tax with the tax rate of 20%. PTTEP has been familiar with this PSC regime as the company operate with this terms in the MTJDA project in Malaysia-Thailand joint development area.

However, the announcement of which regime, either Thailand III concession system or PSC, that will be applied on the upcoming concession expiry has not been finalized yet, as the subject is now being submitted by the Ministry of Energy to the Cabinet by next week, and the outcome is expected by September 2017.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul

Executive Vice President, Finance and Accounting Group

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Sales Volume and Unit Cost

Better unit cost and selling price despite lower sales volumes

The sales volume in 6M 2017 stood at 292,709 BOED, decreasing by 10% from that of 6M 2016, mainly due to lower crude loading of the PTTEP Australasia Project compared with the previous year by 2 loads, longer shut down for maintenance activities of the MTJDA Project, the low nomination issue as mentioned before as well as the missing sales volume from Oman divestment at the end of previous year. Also, there was higher shutdown maintenance for the Bongkot Project coupled with a temporary suspension of the S1 Project related to the Agricultural Land Reform, ultimately leading to weaker sales volume than that of last year.

On the other hand, the weighted average selling price was increased by 6% mainly driven by better liquid price from 37.61 USD/barrel in 6M16 to 50.63 USD/barrel in 6M17 even gas price marginally fell by 7% from 6M 2016. In summary, the sales volume was softened, while the weighted average selling price improved.

For cost side, the unit cost was brought down further by 4% from 29.42 USD/BOE in 6M 2016 to 28.29 USD/BOE in 6M 2017, due to lower DD&A resulting from reserves addition at the end of 2016, whilst other components including finance cost, G&A, and operating expenses per unit were increased as an impact from lower sales volume without significantly movement in absolute figures. The increase in royalties was in line with oil prices. Nevertheless, the exploration expenses were declined from same period last year because, during 6M 2016, we had a high seismic cost from exploration project in Brazil, and two permits withdrawal of exploration block in the PTTEP Australasia Project. Like previously mentioned, the lifting cost also raised from 3.97 USD/BOE in 6M16 to 4.01 USD/BOE in 6M 2017 due to lower sales volume effect. According to the success ratio of 0:4 in this period, I would like to clarify that the drilling rationale was to ensure petroleum potential in those areas, which the write-off expenses of those 4 wells were lower than the land retention payment.

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Cash Flow Performance

Robust cash flow generation to support CAPEX and debt service

From the aforementioned performance, the Company reported net profit of 569 million USD for 6M 2017, comprising of recurring net income of 378 million USD and gain from non-recurring items of 191 million USD, mainly attributed by tax saving from the strengthening in THB currency against USD currency by approximately 2 Baht/USD during the period coupled with the oil price hedging gain amounting to approximately 30 million USD.

The operating cash flow remained strong at approximately 1 billion USD, which is on track with our target full-year operating cash flow of above 2 billion USD depending on global oil prices and the EBITDA margin was also maintained healthy at 71% level.
During the first half of 2017, the Company was in self-funding position, which covered CAPEX spending of 500 million USD and the remaining of 300 million USD was served debt service and dividend payment.

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Financial Position

Healthy balance sheet with low gearing

Talking about the capital structure, the asset as of June 2017 reduced slightly from the end of 2016 due to lower property, plant and equipment as a result of higher depreciation expense recognition. The interest-bearing debt remained pretty much the same at 2.8 billion USD, only with a slight difference from Baht Bonds translation. The equity increased following higher profit, less dividend payment, from 11,386 million USD at the end of 2016 to 11,659 million USD as of June 2017.

The Company's debt profile was 100% in USD currency as usual, while the weighted average cost of debt was 4.46% and the ratio between fixed and floating interest was 80:20. The average loan life dropped slightly to 7.71 years.

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Dividends

Demonstrating our dividend commitment to shareholders

As reported to the Stock Exchange of Thailand, the interim dividend for the first six months of 2017 payment was 1.50 Baht per share, equivalent to the payout ratio of 30%. The payment date is August 25, 2017.

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Financial Outlook

Expect to deliver robust financial performance

The guidance on financial outlook was updated as follows. The average sales volume in Q3 2017 and full-year 2017 have been projected to be about 290 and 300 KBOED, respectively. In the meantime, the average gas price in Q3 2017 is likely to be around 5.6 USD/MMBTU and 5.5 USD/MMBTU for the whole year 2017, meaning that the gas price in Q4 2017 will slightly decline. The unit cost in Q3 2017 is estimated to be 30 USD/BOE due to planned maintenance activities, whereas the full-year, we expect to stay at 29 USD/BOE reflecting our best effort to maintain our low cost base. Lastly, the 2017's EBITDA margin will be maintained at 70% level.

PART 4: Operational Outlook and Growth

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

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Updates on 2017 Priorities (1/2)

Expedite the execution with focus on adding reserves and production

This section will cover operational updates and outlook for the remaining of 2017. As provided in the guideline, it is our goal to maintain sales volume at around 300 KBOED and the unit cost not higher than 30 USD/BOE.

With regards to the sales volume in 1H 2017, there were impacts from the low nomination of natural gas in the Gulf of Thailand, the case concerning the Agricultural Land Reform, and the routine planned maintenance. Regarding the land reform issue for the S1 project, after the government exercised Section 44, allowing us to operate in the land reform areas, the operation has then resumed after a temporary partial suspension, and currently the production has been at its normal level at around 27-28 KBPD of crude. We are now complying with the procedures that have been temporarily waived by the government. Meanwhile, there are a few areas that have never been accessed due to the restriction on the land reform, in which we are now in the process of preparing documents to submit in accordance with the regulations, and we expect the production from such new areas late this year or early next year.

For Myanmar projects, there was nil or very limited impact of LNG import to the nomination of gas from Myanmar projects and we have seen higher demand for natural gas in Myanmar. We therefore try to ensure the production as targeted as well as to increase sales in the domestic market in Myanmar.

For the Montara field in which we have 100% ownership, we have adjusted the schedule by accelerating the development well drilling from next year to the second half of this year as the oil prices have become more stable and rig rates would be in the favorable terms.

In the meantime, we can maximize the production of condensate in the Bongkot and Arthit projects fields in order to partly compensate the lower gas sales due to low nomination of natural gas.
All in all, these are the mitigation plan that we are focusing on in the second half of the year in order to meet sales volume and unit cost targets.

Apart from that, we are getting prepared to participate in the bidding for Bongkot and Erawan. We are currently discussing with the current partners of the Erawan to formulate the bidding consortium. Also, we expect the term of reference for the bidding will be launched very soon.

Before we proceed to the next slide, I would like to address on the low level of exploration activities in 2017. It was due to the postponement of high risk wells drilling in light of the volatile oil prices during 2015-2016. Recently, we have adjusted the exploration portfolio to reflect more stability of oil prices, and we expect more drilling activities in 2018. As mentioned earlier by Khun Pannalin, this year our drilling activities mostly took place in order to retain exploration acreages, which we drilled wells instead of paying the retention fee.

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Updates on 2017 Priorities (2/2)

Expedite the execution with focus on adding reserves and production

This slide mainly discusses pre-development projects and M&A opportunities. During this quarter, there was a clearer picture in terms of regulations in Mozambique. The government of Mozambique has approved the marine concessions which summarize the rights to build, utilize ports and export LNG. Following this, the resettlement action plan would begin in 2H 2017. Meanwhile, we have been trying to conclude the gas sales agreement with potential buyers, including PTT. In parallel, we are also discussing and negotiating with financial institutions to support the project finance.

For Algeria HBR, we are now trying to finalize a large-size oil field in Algeria with the expected production of 50 KBPD, in order to add reserve and accelerate production. This includes the development phase 1 of 10-13 KBPD, which would accelerate the revenue generating and allow us to collect the data to ensure the potential of the field. In the meantime, we are now actively working with the operator to conclude the study for Ubon field in the Contract 4 project.

We have always placed emphasis on securing M&A deals and we are fully aware of the investors' intention to see tangible growth and optimal use of capital. As mentioned in the previous section, the number of concluded deals in Southeast Asia remained quite limited, hence it is necessary that the Company looks into other prolific areas beyond Southeast Asia. This also extends to the exploration portfolio that we might look into opportunities in other prolific areas such as Brazil and Mexico, which the key strategy is to ensure that we have good partners in such areas.

Last but not least, the LNG value chain is a way to diversify in order to mitigate the risk from reliance mainly on major assets in the Gulf of Thailand. We have joined hand with PTT to invest in the upstream and midstream of LNG businesses. Going forward, LNG will be one of the key strategic growths as it is going to be one of Thailand's primary sources of energy. Next, Khun Montri will share the details of the recent investment in the LNG project with Petronas.

Khun Montri Rawanchaikul
Executive Vice President, Strategy and Business Development Group

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LNG Value Chain Investment: MLNG Train 9 (1/2)
First step into midstream LNG business in strategic area of focus

To reiterate what has been mentioned by the CEO, we have been looking into opportunities to invest in the LNG businesses. The MLNG train 9, which is part of MLNG complex, is located in Sarawak, Malaysia, and our partners in the project are Petronas (holding 80%) and JX Nippon (holding 10%). The investment rationale is to venture into midstream LNG as a mean to secure LNG supply and growth of PTT and PTTEP. The capacity of MLNG Train 9, which is a new train that has just commenced production in early 2017, is 3.6 million tons per annum.

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LNG Value Chain Investment: MLNG Train 9 (2/2)
Investment structure and LNG process

The investment structure is that PTTEP (through its subsidiary) jointly invested together with PTT, by way of establishing a joint venture company called PTT Global LNG (PTTGL), with 50% stakes for each party. With PTTGL, a subsidiary called PTTGLI has been established to hold 10% ownership in the MLNG Train 9, which is also called PL9SB. There is a highly market secured opportunity which includes in-place facilities and gas sales agreement. Furthermore, there are a number of gas fields in offshore Sarawak areas, from which gas has been fed into this MLNG complex.

Regarding the LNG process, first, feed gas is supplied into the complex. Then, acid gas, mercury and other contaminants will be separated and removed. The next critical process called liquefaction is converting gas into liquid form using a very low temperature. The liquefied natural gas (LNG) will then be filled into the tank before getting shipped and sold.

All in all, investing in this project enabled us to be involved in the midstream LNG business, which is part of our strategic direction to seek investment opportunities in the LNG value chain to support future growth.

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer

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Key Takeaways

Strived through the downturn and ready to compete

As you can see, we can maintain competitive cost base and strong margin, while the challenge lies in capitalizing on the investment capital effectively by way of selecting appropriate M&A deals in order to support growth. Besides Southeast Asia, our geographical focus both for M&A and exploration would be expanded into other prolific areas. In terms of M&A, our emphasis would be on the M&A deals that we could deploy our competitive advantages. For exploration, the key considerations are the petroleum potential of that particular area and whether we can find the partners who are prudent and have the right capabilities. Now I would like to open the floor for Q&A.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

For cooperation with PTT on LNG business, which part of the LNG value chain does PTTEP and PTT focus on?

Answer from PTTEP's management

PTTEP and PTT have incorporated a new JV company called "PTT Global LNG" to invest in LNG value chain projects globally. The current focus is on the upstream and liquefaction parts of LNG projects, however, it may be extended to LNG trading and shipping depending on our future LNG portfolio.

Question # 2

Regarding the third party access policy and liberalization of the LNG importation (including the news on the EGAT importing 1.5 MTPA of LNG in 2018) and floating storage re-gasification storage unit (FSRU) businesses, what is the impact to the company?

Answer from PTTEP's management

The policy will improve competition in the domestic market which allows new competitors to import and access LNG liquefaction and other infrastructure. PTTEP as part of PTT Group is certain that we will be able to compete with other new players on a cost competitive basis, given our long term off-take LNG agreements and experience in the LNG market. It should also be highlighted that the development of TPA especially for the FSRU front will take some time.

Question # 3

As the company places high focus on gas and LNG in its current strategy, could you please share your view on the strategy of oil asset investments?

Answer from PTTEP's management

In the long run (til year 2040), the company's view (which is in line with market view) is that oil will remain the key contributor of global energy supply, however, its growth will be relatively flat. On the other hand, gas is expected to continue its growth as well as renewable energy. We will consider the investment in oil assets based on the attractive return and ability to monetize within the timeframe.

Question # 4

In terms of the bidding of the expiring concessions (i.e. Bongkot and Erawan), as there is still uncertainty around the fiscal regime for the bidding, could you please elaborate on the government take for each possible fiscal regime and the different from the "Thailand 1" regime that is currently used for both projects?

Answer from PTTEP's management

From the news, the possible fiscal regime to be applied for the bidding would be "Thailand 3" regime or "Production Sharing Contract (PSC)" regime. The government take for both regimes, from the interpretation of the recent Petroleum Act, would be in the range of 70%-80%, which would also depend on the oil prices. Such government take of Thailand 3 and PSC is apparently higher than the "Thailand 1".

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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.*