

PTTEP Q3 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
Chief Executive Officer

Khun Montri Rawanchaikul
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 Q3 2017 Analyst Meeting, featuring the announcement of the Company's operating performance of the third 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, 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

Chief Executive Officer



Slide
3

Priority on Safety and Sustainability

Top quartile safety performance; Fourth consecutive year as DJSI listed company

This year, we have made an impressive achievement in terms of keeping the number of incidents lower than the industry average. Furthermore, during the fourth quarter, our operators in the Gulf of Thailand need to be aware of the climatic conditions in carrying out the work during the monsoon season, in which the company usually acknowledge the operators in order to make necessary preparations. Around the end of October, there was a tropical depression in the area and we have mobilized our workforce from the area, while the sales of natural gas and condensate continued as usual.

Apart from the harsh climate, the fourth quarter is also the period of time when we have to accelerate our activities in order to meet due dates. With this, we have informed the operation teams to aware and be pre-cautious in order to mitigate the risk of possible incidents

In terms of sustainability, PTTEP has been selected to be a member of the DJSI for the fourth consecutive year and of the FTSE4Good for second consecutive year, while our corporate governance has been rated 'excellent' by the IOD. All of these recognitions from the third parties are the proof of our outstanding performance on sustainability.

Now Khun Montri will update on the industry highlights.

PART 2: Industry Highlights

Khun Montri Rawanchaikul

Executive Vice President, Strategy and Business Development Group



Slide
5

Oil Prices

Tug-of-War between Supply and Demand

For the oil prices, the graph showed that the global oil prices have been picking up since the beginning of Q3 2017 and remained quite stable afterwards. This was mainly driven by the balance between demand and supply which has started to become more materialize due to the production cut among the OPEC members since March 2017. OPEC will hold another meeting on Nov 30th in considering whether to extend supply cut agreement or not. In this regards, a lot of analysts pointed the view that the production cut agreement is highly likely to be extended. It is believed that the production cut by OPEC members is being replaced by the export volume from the US. Hence, the balancing point between oil market supply and demand is subject to the compliance of OPEC cut and the production volume from the US.

From market consensus, the average oil price in the fourth quarter is around 54 USD/barrel and is expected to fluctuate in the narrow band of 50-57 USD/barrel in 2018. This is due to the fact that a continuous production from the US is expected, while commitment on production cut from OPEC and non-OPEC led by Russia has also improved.

Slide
6

LNG Updates

Abundant supply with an expectation to rebalance by 2023

For an update on the LNG market, in terms of domestic market, it can be noticed that the increasing LNG import has an impact the demand of natural gas in the Gulf of Thailand.

Overall, oversupplied LNG conditions lead to low spot LNG prices for the next couple of years, which resulted in some countries purchased spot LNG for its domestic use rather than contracted LNG. However, we have seen a limited number of new LNG project sanctions due to low oil prices over the recent periods. Also, the charts on the right showed that the Asian markets both established markets and new markets e.g. China, India and Bangladesh will be key drivers for future LNG demand growth, which will have positive impact on future LNG prices and help LNG market rebalancing around 2022-2023.

Slide
7

Thailand Updates

Domestic gas volume suppressed by LNG import; Uncertainty on Thai Baht remains

The left diagram shows that the consumption of domestic gas has been suppressed due to the growth of LNG import, while imported gas volumes from Myanmar remained stable. In the meantime, it can be seen from the chart that the amount of natural gas consumed by electricity sector tend to decrease, which was mainly caused by a rise in renewable source of energy. All in all, natural gas remains as a main source of energy for electricity generation in Thailand even though its proportion has been slowly declining.

Before going through the financial part, let's move on to the exchange rate, the current exchange rate is about 33.3 Baht/USD. There are many factors affecting the exchange rate such as the interest rate and financial policy which would potentially cause the appreciation of the USD.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul

Executive Vice President, Finance and Accounting Group



Slide
9

Sales Volume and Unit Cost

Improved margin from better selling price and cost discipline

Speaking of financial performance, there are three key drivers determining our performance including sales volume, average selling price and unit cost. Sales volume has dropped by about 8% from 320,600 BOED in 9M 2016 to 294,539 BOED in 9M 2017. Fortunately, the global oil price was upturned during the period leading to an improved average selling price of 6% from 36 USD/BOE in 9M 2016 to 38.29 USD/BOE in 9M 2017. Meanwhile, the volume mix between gas and liquid has remained 70:30 as usual which is in accordance with our strategy to emphasize on gas-weighted portfolio going forward.

In terms of the unit cost, we have made a considerable progress so far as we brought the unit cost down further from 30 USD/BOE level in 9M 2016 to 28.36 USD/BOE in 9M 2017. The unit cost breakdown table represented that despite of the slight increase in cash cost, the DD&A expenses helped improve the unit cost as it has dropped from 17.88 USD/BOE to 15.11 USD/BOE, mainly due to the significant addition of reserves at the end of 2016, coupled with lower recognition of completed asset.

Nevertheless, the finance cost has risen slightly from that of 9M 2016 due to the effect of lower sales volume in this period. Also, the royalty expenses have moved up from that of 9M 2016 following the higher average selling price. The G&A expenses per unit has also increased by about 0.30 USD/BOE, and half of which was due to the effect of lower sales volume as well as the adjustment of charge-out fees from partners by about 0.1 USD/BOE.

On the other hand, the exploration expenses have dropped quite significantly this period due to the fact that there were two permit write-offs in 9M 2016 of around 30 MMUSD from Australia and Kenya assets. Moreover, majority of seismic activities in this year have been completed and is in the process of the assessment.

The operating expenses per unit has increased by around 0.8 USD/BOE from 4.86 USD/BOE in 9M 2016 to 5.68 USD/BOE in 9M 2017, whereby around 0.5 USD/BOE was due to the lower sales volume effect, and another 0.3 USD/BOE was due to the recognition of net realizable value (NRV) on inventory which

had caused low operating expenses in 9M 2016 while the figure has come back at its normal level in 9M 2017. These are all the summary of key drivers for the Company's performance.

Slide
10

Net Income Breakdown

Strong core earnings while net income condensed by non-cash impairment loss

The recurring net income has increased from 345 MMUSD in 9M 2016 to 596 MMUSD in 9M 2017, representing a strong core performance. However, the Company net income for this period stood at 305 MMUSD as it was condensed by loss from non-recurring items of 291 MMUSD. The loss from non-recurring items included the recognition of impairment loss of 558 MMUSD in this quarter due to the revision of development plan and the delay of the Final Investment Decision (FID) for the Mariana Oil Sands Project in Canada. Nonetheless, the impairment loss was offset with a tax saving of 267 MMUSD from the Baht appreciation against USD during the period.

The Baht currency is currently strengthened against USD currency, which resulted in the recognition of tax benefit during the period. However, there is a possibility that the FOMC may decide to hike the interest rates leading to depreciation of Baht against USD, which would result in negative impact on the Company's performance. As we always mention that every 1 Baht weakening against USD, the Company's tax expenses will be increased around 90 to 100 MMUSD. However, this is owing to the currency for tax filing, and the government is now in the process of revising the tax law concerning this particular issue. Once the law is enacted, the impact can be considerably alleviated.

Slide
11

Cash Flow Performance

Sufficient liquidity to fund CAPEX, investment and debt services

Over the first 9 months of 2017, we have generated operating cash flow amounting to 1,617 MMUSD, which is in line with our financial projection given the current oil price scenario.

For the use of funds, the investment accounted for about 1 billion USD, which can be further classified into CAPEX and investment with PTT through PTTGL in the liquefaction plant called the MLNG train 9 Project of about 250 MMUSD. The remaining uses of fund were for dividend payment, interest payment and finance cost, totaling 572 MMUSD. To sum, the total use of funds was 1,584 MMUSD, and our solid cash flow generation could cover uses of funds for investments, dividend and debt services.

Financial Position*Healthy balance sheet with low gearing*

Talking about our financial position, the total assets at the end of this quarter has declined marginally compared with the end of 2016, mainly from the impairment of 558 MMUSD together with the decrease in PP&E from depreciation of about 300 MMUSD, while the investment has increased by about 260 MMUSD. Also, the current asset has increased from the cash flow generated and higher accounts receivable, mainly from PTT.

On the liabilities side, total liabilities have dropped by 118 MMUSD due to lower income tax payable and deferred tax liabilities. On the other hand, account payable has increased by 52 MMUSD. Equity has decreased by 157 MMUSD due to the dividend payment of 459 MMUSD while the net profit for 9M 2017 has been booked at 305 MMUSD.

The debt profile is 100% in US dollar currency. The weighted average cost of debt has increased slightly from higher floating interest rate. The proportion of fixed and floating debt remained at 80:20, while the average loan life decreased from 8.15 to 7.40 years.

Financial Outlook*Expect to maintain strong core financial performance*

The financial outlook is somehow similar to what has been provided to you earlier. We are still confident that the average sales volume for full-year 2017 should be around 300,000 BOED level, and that the sales volume in Q4 2017 is expected to increase as the Company endeavor to uplift liquid production to cope with concern on PTT's low gas nomination. This has so far been quite successful and CEO will share more in details shortly.

The average gas price is expected to be about 5.6 USD/MMBTU, meaning that the average gas price in Q4 2017 will improve slightly. Meanwhile, the unit cost is likely to be around 29 USD/BOE, increasing slightly in Q4 2017, mainly due to the recognition of more complete assets. Last but not least, the EBITDA margin is to be consistently maintained at 70%.

PART 4: Operational Outlook and Growth

Khun Somporn Vongvuthipornchai
Chief Executive Officer



Slide
15

Priority on Producing Projects

Sustain Production and Low Cost in Existing Projects to Maximize Value

For operational updates and outlook, currently and going forward, the Company maintains priority on the producing projects in order to achieve the target sales volume of around 300,000 BOED, while maintaining the unit cost at around 29 USD/BOE.

Subject to the conditions in long-term gas sales agreements with buyer, some projects in the Gulf of Thailand may have carry-forward gas volume from the previous years. The buyer could exercise such carry-forward volume through lower natural gas nomination in the current period, which we have seen the impact to the lower sales volume of the Company, especially in Q2 2017. Hence, the Company has initiated and implemented mitigation plan to uplift the production volume in a number of projects.

With regards to the S1 project, the issue about the land reform has been resolved. Many activities are being performed, and we are now preparing to access the new areas for further activities. However, this still require a lead time before production can be realized from the areas. For projects in Myanmar, the emphasis is placed on delivering higher sales volume to capture demand in Myanmar domestic market. Meanwhile, for the Montara project, we ensure the reliability of the equipment, and we are executing the drilling activities which we could benefit from low rig cost. Through integration of all lessons learned and experience, we are quite satisfied with the drilling results, and would expect production from such well over the next two weeks. For Bongkot and Arthit projects, with low gas nomination and competition from LNG, our focus also extends to maximizing liquid production. Production contributed from these initiatives would enable us to achieve the sales volume target of around 300,000 BOED.

Priority on Pre-Development Projects*Accelerating the FID for near-term reserves addition*

For Mozambique project, PTT's Board of Directors has approved the LNG offtake agreement of 2.6 million tons per annum, which marked a significant progress for the project. The proposed agreement is now under consideration of regulatory bodies before PTT can sign the LNG agreement. Moreover, the project consortium is now in the process of negotiating with the financial institutions for the project financing. On regulatory and operational sides, plan of development which requires the government's approval will serve as a master plan for the project's development. Resettlement activities are under preparation and should be commenced very soon. For this project, we expect the first production by the year 2022-2023.

We aim to fast-track the development of Algeria HBR project, which is our second project in Algeria, following the successful exploration campaign. We are currently working with our partners to submit the plan of development to the government for approval before making final investment decision (FID), expected by the end of this year or early next year. For Ubon (Contract 4) project, we are in the phase of conducting studies together with the operator, Chevron, in order to make final investment decision in the future.

A new addition to this pre-development projects list is Southwest Vietnam project. This project is located in the Vietnamese water, east side of the Thailand-Vietnamese maritime boundaries, where Arthit project locates in the west side of such border. The Company's stake in the project is quite marginal of about 7-8%, where PetroVietnam is the operator and MOECO is the JV partner of the project. The agreement on gas price has been signed. Further commercial details and contracts are finalizing, and the investment decision shall be concluded by the first half of next year. Now, I would like Khun Montri to share with you on the updates for the expiring concessions and new investments.

Khun Montri Rawanchaikul*Executive Vice President, Strategy and Business Development Group***Priority on Expiring Concessions Bidding***PTTEP is well-positioned and ready to bid for Bongkot and Erawan*

I believe analysts and investors are interested to know more about the expiring concession bidding as well as the Company's growth opportunity. Currently, the related ministerial regulations are under the Office of the Council of State's consideration. Once the ministerial regulations have been enacted, the terms of reference (TOR), with the likely fiscal regime to be PSC, will be announced at around the end of 2017, and

the tendering process can then be commenced in early 2018 and bid results can be expected around the end of 1H 2018.

With our long experience in operating the field, understanding in the subsurface, operational efficiency and potential synergies in the Gulf of Thailand operations, we are ready to participate the upcoming bidding for the expiring concessions, especially the Bongkot project.

Slide
18

Priority on New Investment

Actively seeking opportunities for better valued investments and reserves accretion

In terms of M&A, we see very low number of M&A deals in Southeast Asia (SEA) during the past few years when there was a big gap in price expectation between buyers and sellers. Rather, the majority of global M&A deals have been taking place in the US shale and oil sands projects over the past few years.

Given that the oil prices have started to stabilize, the Company continues to actively seek M&A opportunities, in which SEA is our key focus area. Given limited opportunities in SEA, the Company also looks at M&A opportunities in other potential areas with low risks, relatively low costs, and are in the producing stage, and Middle East is one of the potential area that we are looking to identify new investment opportunities. From the map on top of the slide, the areas in the dark blue circles are our areas of focus in terms of M&A i.e. near-producing or producing assets in Southeast Asia and the Middle East, while the areas in the light blue circles are possible areas to expand for investment in exploration acreages, which are expected to have high petroleum potential, for the contribution in the longer term.

On the cooperation with PTT in the investment in the LNG value chain, the joint venture company acquired 10% interest in MLNG Train 9 which is a LNG liquefaction plant in Malaysia during Q3 2017. PTTEP and PTT see the benefits of value created from investing in the whole LNG value chain from upstream, midstream and downstream together, which will ultimately enable growth for PTTEP in the long run.

Khun Somporn Vongvuthipornchai

Chief Executive Officer

Slide
19

Organizational Restructuring

To support operational efficiency under changing business environments

Before we proceed to the Q&A session, I would like to give a quick update on the Company's management and organization. We have implemented our strategy of "RESET, REFOCUS, RENEW" since 2016. "RESET" aims at having a resilient and competitive cost structure to cope with the oil price

volatility. “REFOCUS” is for our investment strategy which focuses on Southeast Asia and other potential areas, and is inclined towards gas and LNG projects which we believe are in line with the global trend. “RENEW” is to retain competitiveness in a sustainable manner through enhancement of capabilities and technology and improvement on work processes, as well as consideration on the global trends of the renewables and disruptive technology.

With this strategy going forward, the Board of Directors has approved the Company’s reorganization, and the position ‘President’ has been introduced to supervise the entire cycle of E&P activities ranging from exploration, development, production and operations support. The CEO, myself, will be in charge of the strategy, business growth and expansion including M&A, business and organizational transformation, human resources, finance and accounting, and corporate affairs and assurance including corporate governance, risk management and compliance (GRC). I would like to take this opportunity to introduce PTTEP’s President of Exploration and Production, Khun Phongsthorn Thavisin, one of the pioneers of this Company.

Khun Phongsthorn Thavisin
President, Exploration and Production

I started my career in the petroleum industry with Unocal Thailand in 1985, working there as a Production Engineer in charge of the Erawan and Banpot fields, one of only four fields in Thailand back then (Erawan, Banpot, Satun and Plathong). I then joined PTTEP to work at the Bongkot field. I was there since the beginning of the development, and took care of the field’s operations. I was also seconded to France to work with TOTAL for quite a while. After I returned to Thailand, I first worked for the Arthit project, before moving on to international assets i.e. Vietnam, Oman, Iran and Algeria, and the Corporate Safety team promoting the campaign “Take SSHE to your heart, make it part of your life,” with the aim of building a safety culture in the Company. I later moved to the engineering and construction team to take care of the Bongkot South and Zawtika projects before be appointed as the Chief Operating Officer (COO) to lead all of the Company’s operating assets and operations support. In support of the CEO’s direction to transform the organization, my responsibilities as President will be to ensure the efficiency and effectiveness in execution of activities in the entire E&P value chain, covering operating assets and operations support as well as engineering, development and exploration. We believe that managing activities across the whole value chain will create synergies and lower costs in several ways.



The organizational transformation will create more flexibility for the organization to identify and invest in new businesses. Given the current global trend for clean energy e.g. EV cars, renewable energy etc., although the E&P sector will continue to be of integral significance in the short to medium term, it is likely to gradually to be overshadowed over time, and the Company therefore needs to adjust and seek investments in new businesses to ensure our sustainability in the future.

Last but not least, I would like to ensure you about our competitive position in the upcoming bidding for expiring concessions in Thailand, as we are a cost efficient operator in the area, and have extensive experience in the field's operations since the beginning. Moreover, our key pre-development projects e.g. Mozambique LNG and Algeria HBR will be driven towards the investment decision and execution in a timely manner. On a final note, I believe that this reorganization will add value and contribute to the improvement of the Company's exploration and production activities in the long run.

Khun Somporn Vongvuthipornchai*Chief Executive Officer*

With Khun Phongstorn's leadership and vision over the full range of exploration and production activities for PTTEP, the Company strongly believes that it will be successful in its mission. Now, I would like to proceed to Q&A session.

PART 5: QUESTIONS & ANSWERS (Q&A)**Question # 1**

Please discuss around the low nomination of natural gas situation and operational outlook for remaining of the year and next year.

Answer from PTTEP's management

During 1H2017, domestic gas demand for power generation did not grow as we or PTT expected due to increased outputs from renewable power. With LNG cargoes having been procured and stocked up for higher demand scenario, this led to the low nomination for natural gas from the Gulf of Thailand during the first half of the year. However, during 2H2017, the condition has been adjusted which we have seen improving situation on the natural gas nomination from GoT. Regarding the operational outlook for 2018, the Company targets to maintain sales volume at 300KBOED level and low cost base at around 30 USD per BOE. In addition, we would like to enhance our R/P from M&A execution and bidding of expiring concessions in the GoT.

Question # 2

For pre-development projects, what is your view on the valuation of the Southwest Vietnam project? What is the assumption for the Mozambique LNG project for the impairment test?

Answer from PTTEP's management

The Company could not comment on the exact valuation of the projects. The current valuation and gas price agreed earlier in September satisfy the current JV partners to proceed with the Southwest Vietnam project. For Mozambique LNG project, we have to perform the impairment test for the project at least once a year, and no impairment is identified from the previous impairment test as there is no significant delay in the project's startup (around 2022-2023), larger resources comparing with when we acquired the project, and potential development cost reduction.

Question # 3

Could you please update on the M&A activities?

Answer from PTTEP's management

There are a few ongoing M&A activities that we are pursuing, and we expect results from these activities around the end of the year or early next year.

Question # 4

Regarding the news on the tropical depression, is there any impact to the Company's production volume?

Answer from PTTEP's management

There is no impact to the Company's production volume from the tropical depression in the GoT.

Question # 5

Talking about new businesses, what will be the areas of focus?

Answer from PTTEP's management

We believe oil will still be a major contributor for energy consumption for at least 20-30 years. Natural gas and renewables should play an increasing role in energy supply. Our current priority is to maintain our core strength in oil and gas business, and therefore the studies on the technology to enhance our performance in the oil and gas business are ongoing.

In addition, we have set up a new business unit to explore opportunities in E&P related business, natural gas chain as well as monitoring impacts and business prospects that would emerge from disruptive technologies.

Question # 6

Regarding the bidding of expiring concessions, what is the current progress and the impact from the delay in the bidding timeline?

Answer from PTTEP's management

The Company is well-prepared for the bidding. For Bongkot in which we place high emphasis on the continuity of the production, there should be no impact to the field's production if the bidding results are announced within next year (2018). However, we note that the delay would result in increasing inflexibility in the preparation and higher cost for the winner. For Erawan, we are discussing with the current JV in order to form a consortium for the bidding, but we are also ready to bid if such agreement could not be reached.

Question # 7

From the news on the setting up a new company in Mexico, what are the rationales for the investment?

Answer from PTTEP's management

Mexico and Brazil are areas with high potential and competitive cost structure, in line with our investment strategy. Also, the investment in these areas would incur low upfront cost (entry via bidding round), and we would form a consortium with prudent partner who has experience in those areas.



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

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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.*