

PTTEP Q1/2017 Analyst Meeting



Edited Transcript

Venue: Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand
15 May 2017
10:30 – 11:45 Hours

Speakers: Khun Somporn Vongvuthipornchai
President and 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 1Q/2017 Analyst Meeting, featuring the announcement of the Company's operating performance of the first quarter of 2017. Please allow me to introduce the Company's executives who will be giving reports on the Company's operating performance today.

1. Dr. Somporn Vongvuthipornchai, President and Chief Executive Officer
2. Mr. Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group
3. Ms. Pannalin Mahawongtikul, Executive Vice President – Finance and Accounting Group

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

PART 1: Safety Performance

Khun Somporn Vongvuthipornchai
President and Chief Executive Officer



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Priority on Safety and Sustainability

Significant cost reduction without compromising on SSHE

Once again, safety has always been our point of focus. However, the graph suggested that the number of Lost Time Injury Incident Frequency (LTIF) in the first quarter of 2017 slightly increased to 0.17 incidents per million man hours. The incident was caused by the seismic activity carried out in Myanmar, which was quite a tough terrain. Given that, the Company has always been giving out precautions for the operators to be extremely careful especially in the unfamiliar areas. The lost time injury incident frequency (LTIF) is 2 incidents altogether, involving the drilling of the well for seismic purposes. From this incident, it is required that we invited top executives of our contracting company to explain to them how they are expected to

mitigate possible risks. After discussing different preventive measures, the safety protocols and direction have become clearer, while we also have to arrange a team to supervise the site to ensure that the safety record is improved.

After this, Khun Montri will be discussing the industry highlights and environment. Then, Khun Pannalin will be sharing the financial results of the first quarter of 2017, and I will be concluding with the operational outlook and growth before we proceed to the Q&A session.

PART 2: Industry Highlights

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



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Oil Prices

Gradually recovered but still ambiguous

One of the most prevalent factors in speaking of the industry highlight is the oil prices, including its potential impact on several aspects and the direction going forward. For instance, the Dubai oil prices has been quite stable at around 53 USD/barrel since the beginning of the year, despite some degree of fluctuation during the past few weeks, mainly driven by the increase in production in the US. Moreover, the number of rig counts in the US has reached record high in the past month, signaling higher production following the increase in oil prices. Nevertheless, a production cut agreement of about 1.2 million barrels among the OPEC has led to a positive outcome in a way that the degree of oil price fluctuation has been much narrower. In terms of compliance rate, OPEC's achievement has been quite satisfactory at 104%, while non-OPEC's achievement is 64%, meaning that there is still room for further production cut among non-OPEC.

Going forward, one of the factors determining the oil prices mechanism and direction is the resolution of the OPEC's meeting which is to be held in the end of this month, with the objective of deciding whether to renew the production cut agreement. If OPEC is to freeze production in this range, we are quite certain that the oil prices are going to stabilize at around 50-55 USD/barrel.

Meanwhile, there have been signs of higher demand, despite the effects from increasing supply from the US. All in all, the oil prices scenario has a high tendency of gaining stability but there is still a possibility of uncertainty from the production scenario that may vary.

Slide
6**2017 Global Upstream Growth Outlook***A sign of industry recovery through capital investments and M&A activities*

This slide summarizes the investment outlook for small-size, NOC and large-size oil companies after the oil price has showed a sign of gaining stability. The majority of investment activities have been geared towards the CAPEX investment, with most of them taking place in the US. The vast majority of production is tight oil, as the world's new swing producer, while LNG still remains a challenge even the market has started to ramp up its capacity, and the amount of supply is somehow still higher than demand.

With regards to M&A activities over the past two years, the majority of M&A deals took place in the US and there were a number of transactions in oil sands projects in Canada as well.

Slide
7**2017 Global Upstream Cost and Regulations Outlook***Efficiency driven to maintain low cost base and major reform of fiscal terms*

Talking about cost management, every company has been continuing to control and reduce the CAPEX spending. Over the past two years, we have managed to keep CAPEX spending and operational process lean following the drop in oil price. From the service sector's point of view, there should also be only room for small reduction as the margin derived from service provision is quite low. Thus, from these factors concerning the oil prices, Service Company and cost of production, we can expect a higher degree of stability in the industry cost instead of further significant reduction.

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LNG Updates

Global supply glut peak in 2020 and expect to rebalance after 2023

For the LNG updates, there have been a number of LNG projects being established recently and there will be a number of projects coming up over the next few years as well. The demand for LNG in Asia in the near future is going to be quite high. Currently, there is a LNG oversupplied conditions in the market, causing the LNG price to stay rather low. However, from 2023-2024 onwards, LNG demand, mainly dominating by Asian demand will be the key driver to improve LNG price where we can expect a supply-demand rebalance.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul
*Executive Vice President,
 Finance and Accounting Group*



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Sales Volume and Unit Cost

Sales price started to recover while low cost base was still maintained

In comparison with the previous quarter, sales volume in Q1/2017 has dropped, mainly due to the planned shutdown in 3 projects in Myanmar, the low nomination of Contract 4 project and the MTJDA. This would potentially lead to lower sales volume for the full year 2017.

Sales volume from Thailand represented 78% of the total sales volume, while sales volume in Myanmar and other Southeast Asia accounted for 17% and the remaining sales volume was from the rest of the world. In terms of price, we believed that the gas price had reached its lowest point in Q4/2016 and started to gradually recover since Q1/2017. Therefore, the gas price in Q1/2017 was 5.24 USD/MMBTU, which is slightly higher than that of Q4/2016. Meanwhile, the liquid product price is reflective of the global

crude price, which the Dubai oil price was about 53 USD/barrel resulting in the increase of the weighted average sales price to 38 USD/BOE. The volume mix ratio between gas and liquid remained unchanged at 70% and 30% respectively.

Moving on to the unit cost, the unit cost in Q1/2017 was reduced quite significantly QoQ and YoY. One of the major factors that helped reduce the unit cost was DD&A. We have booked substantial amount of additional reserves in Q4/2016, consequently causing the DD&A per unit to drop. Nevertheless, the finance cost has increased slightly from Q4/2016 as a result of the global interest rate hike, and our floating interest rate accounted for approximately 20%, leading to a slight increase in finance cost.

Meanwhile, the royalties also increased in light of the higher sales price. G&A expenses have dropped by more than 50% QoQ from 3.22 USD/BOE to 1.54 USD/BOE. The G&A expenses in Q4/2016 was quite high, given that there was the actualization of corporate charges at the end of the year. However, the G&A expenses in Q1/2017 was back to the normal level of around 1-2 USD/BOE.

Exploration expense in Q1/2017 was quite low. There were two wells written off during the quarter totaling USD 3 million, seismic activities which cost about USD 3 million, offsetting with adjustment, causing the exploration expenses to drop. The operating expenses in Q1/2017 stood at 5.19 USD/BOE, decreasing slightly from Q4/2016, mainly because of lower maintenance activities as compared to Q4/2016. All in all, the unit cost in Q1/2017 stood at 27.54 USD/BOE.

The drilling success ratio in Q1/2017 was 0:2. The cash cost in Q1/2017 was 12.20 USD/BOE, which was slightly higher than that of Q1/2016 but lower than that of Q4/2016.

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Cash Flow Performance

Self-funding for CAPEX and debt service

Our operating cash flow remained healthy at USD 688 million with an increase of EBITDA margin to 74%, which was considered quite high. In terms of the use of funds, USD 264 million was paid for CAPEX and interest/finance cost. However, the actual CAPEX spending amount of CAPEX was approximately USD 300 million, in which some items have not been paid yet.

The net income in Q1/2017 was USD 349 million. The recurring net income was USD 211 million. While there was a drop in sales volume, we gained from higher oil prices and the Thai Baht appreciation by 1.4

THB/USD during Q1/2017, causing the net income to be considerably higher than the recurring net income.

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Financial Position

Healthy balance sheet with low gearing

The total assets have remained pretty much unchanged. The interest bearing debt to equity ratio has remained at 0.25 time. The equity has increased from the net income during the period netting with the dividend accruals. The debt profile was 100% in the USD currency, while the weighted average cost of debt has increased slightly following the increase in the interest rate. The proportion between the fixed and floating debt was 80:20, and the average loan life has decreased to 7.90 years due to the bond buy-back arrangement in 2016.

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Financial Outlook

Expect to deliver robust financial performance

In terms of the guidance, the target sales volume was revised from the previous guidance of 312 KBOED to 300-310 KBOED, partly due to the low nomination of Contract 4 and the MTJDA project. Our CEO will be sharing further on the mitigation plan to improve sales volume in the next section.

There is a slight increase on the guidance of the average gas price from 5.3 USD/MMBTU to 5.5 USD/MMBTU, given the assumption of Dubai oil price at 52 USD/barrel as opposed to the assumption of 49 USD/barrel that was used previously.

The guidance on unit cost has revised down from 30-31 USD/BOE to 29 USD/BOE, mainly due to the lower volume of the MTJDA project that has high DD&A per unit. Last but not least, the EBITDA margin projection for FY2017 has remained at approximately 70%.

PART 4: Operational Outlook and Growth

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2017 Outlook on Existing Projects in SEA
Maximizing value and mitigating near-term downsides

For a quick update regarding the LNG project, the current spot price is relatively on the low side, which is in a competitive range with the gas price in the Gulf of Thailand. Given this circumstance, there is a high tendency that the gas business in the domestic market might get affected by the lower LNG price. As of today, we have speculated that the average sales volume is going to be around 300-310 KBOED. The management has taken this issue seriously and initiated a number of activities and designated teams to address this concern. For instance, there has been an attempt to produce more liquid, such as oil or condensate in order to compensate low gas nomination. However, the level of condensate yield of each well in the Gulf of Thailand is not the same, and we will need to prioritize on wells that have high condensate yield to maximize production.

Speaking of the other mitigation plans to compensate lower sales volume of gas in the Gulf of Thailand, there is an effort to improve Enhanced Oil Recovery (EOR) technique on current producing assets such as the S1 project. Also, we have been actively seeking to drill more wells under the reasonable price scenarios and working with the related government body to acquire pieces of land that got branded by the Agricultural Land Reform Office (ALRO), with the facilitation of the Department of Mineral Fuels,

Ministry of Energy in order to gain access to the land and carry out more drilling activities. At the same time, we continue to optimize our costs in order to compensate the bottom line, and also looking for opportunities to maximize sales in Myanmar as we can see potential demand in the market.

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16**Growth Dimensions***Accelerating project development and new investments execution*

With regards to growth and development projects that will help maximize production in the future, there has been a considerable progress at the beginning of the year but significant results can potentially be expected in the second half of this year.

The first key development project is the Mozambique project, whereby several legal and contractual aspects have already been finalized. One of the things that the operator has been actively working on is the maritime concession, which involves the permission to use ports. If this issue can be concluded, it is considered the last checkpoint to be finalized with the government.

In the meantime, the resettlement plan was approved, so if the maritime concession is finalized, we can commence the resettlement activities for local dwellers right away. This involves the construction of infrastructure such as roads and accommodations for the locals in order to ensure smooth resettlement and fair treatment to stakeholders.

In terms of the marketing aspect, efforts have been made to convert HOAs to gas sales agreement, especially with particular buyers like PTT. For project financing, we have received positive responses from lenders so far as they are keeping close attention to the updates of the project and the operator (Anadarko) has been in constant communication with lenders in order to accelerate any pending contractual arrangement with the government.

The other two projects are Ubon (Contract 4) and Algeria HBR. The two projects are under the course of their execution as planned.

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17**Cooperation with PTT LNG Opportunities***Synergy to capture value in the LNG chain*

As it has always been shared with analysts and investors, our point of focus has been on the investment in the gas business or related businesses due to the abundant gas supply availability. Gas is a clean energy

and it has been forecasted that domestic gas demand is going to increase a great deal in Thailand. Thus, PTT and PTTEP have come to the point where the two companies will establish a joint venture company in order to make new investments in LNG value chain projects covering activities like upstream development, liquefaction plant construction, as well as shipping. Nonetheless, the JV Company will not get involved in investment initiatives for business activities that are already in action in Thailand such as regasification plant as they are belong to PTT. Hence, the key investment focus will be on the supply side, production and transportation of LNG product from overseas to Thailand. A clearer picture and progress can be expected in the second half of the year.

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18**Bongkot Concession Expiry***PTTEP is well-positioned to continue as operator*

One of the critical issues we have been keeping close attention on is the expiration of Bongkot concession and we have been preparing for the upcoming bidding activity. I will ask Khun Montri to share further in details and progress taking place over the past few months, as well as what we have been communicating with the Ministry of Energy.

One of the key milestones taking place over the past few months is that the Petroleum Act and the PITA have been approved by the National Legislative Assembly at the end of March. After that, the Department of Mineral Fuels called for a meeting among operators in April to share and discuss the view on the classification of available resources in Thailand, as well as different contractual arrangements; either in the form of concession or production sharing. In this regard, terms and conditions used for the classification are quite clear. Last week, the Department of Mineral Fuels posted the draft version of the Ministerial Regulations regarding the production sharing contract on its website, we then have about 15 days to study the contract in order to provide feedback to the Ministry.

From PTTEP's point of view, this matter has been our focal point for a long while and we can say that we are well-positioned to continue as the operator, regardless of contractual arrangement or format. Once the feedback is received from potential operating companies, the Department of Mineral Fuels will compile all the feedbacks for the Cabinet's review in June. Right after that, the decree shall be produced from the meeting before the terms of reference (TOR) can be approved in July or August, when the bidding period is expected to commence. In this regard, it should take about 3-4 months for the

participating bidders to study the information in preparation for the bid proposals. It is expected that the bidding results cannot be finalized by the end of this year but rather in the first quarter of 2018.

Another issue I would like to provide an update on is the lawsuit in Indonesia. Last week, there was a conference call with the Analysts on this matter and the key point from the discussion is that there was a prosecution from the Indonesian government, filed through the Ministry of Environment. Though we have not received a formal document on the prosecution, the case has already been filed to the court in Indonesia. The charge was made against PTTEP, PTTEP Australasia and PTT. Currently, we are still awaiting formal prosecution in order to confirm the exact amount of claims involved.

We have always been much more careful since the Montara incident. We placed great emphasis on tackling the issue and controlling the leakage at the time, as well as entailing incidents that took place 8 years ago. We asked the third party to carry out scientific researches relevant to the case. The third party researchers who were in charge of data collection and study were approved by the Australian government at that time, and directions regarding the environmental study must also be duly approved. Therefore, we are confident that all the information has been prepared by the qualified third party, rather than PTTEP. This piece of study is now kept with the Australian government and considered one of the most extensive reports concerning environmental issues in Australia. Along with that, an appreciation was made towards PTTEP in our kind cooperation to make this happen.

Speaking of the lawsuit in question, there are two cases at hands. The first of which was filed by the Indonesian government and the other one was the class action prosecution by group of Indonesian seaweed farmers in Australian court. We are now in the process of making our standpoint and defending ourselves against the charges, and we are working on both cases in parallel.

Another issue in the news is that the Indonesian government has addressed the confiscation of assets. After obtaining advices from our legal consultants, we discovered that the Indonesian government is not in the position to confiscate assets of PTTEP and PTTEP Australasia because there is no bilateral agreement between Australia-Indonesia and Thailand-Indonesia. If the Indonesian government is to proceed with the lawsuit, it has to be made directly to either the Thai or the Australian court, depending on who the subject is. The court's decision made in Indonesia will only be treated as a piece of supporting evidence in the Thai and Australian courts.

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

If excluding impact of the high Depreciation, Depletion and Amortization (DD&A) cost of MTJDA project, what would be a normalized level of DD&A?

Answer from PTTEP's management

Normalized DD&A should be in the range of \$17/BOE, however, we believe average DD&A for 2017 would be around \$15-16/BOE based on the new unit cost guidance (when taking into account MTJDA effect).

Question # 2

Could you please discuss on the low nomination on the gas projects in the Gulf of Thailand from PTT?

Answer from PTTEP's management

Under take-or-pay basis in the Gas Sales Agreement, the buyer is obliged to receive gas volumes at Daily Contract Quantity (DCQ), however, the sales volume can be lower from if the buyer is entitled to exercise any gas carried forward. Given the current LNG market condition; there is a chance that the LNG price will stay low and situation of low nomination will be prolonged to 2018. PTTEP is currently monitoring the situation and implementing a number of initiatives to uplift sales volume for both short and long-term including enhancing oil/condensate productions to compensate the missing gas sales.

Question # 3

Is there any commitment between PTT and PTTEP to maintain the Bongkot's production level to avoid gas supply shortage during 2019-2020?

Answer from PTTEP's management

There is a contractual commitment between buyer and seller, in which the additional investment is planned to start in early 2018 in order to maintain the current level of production until 2020. However, this has already been reflected in our 5 years guidance.

Question # 4

Given the low LNG price outlook, could you please clarify the rationale of the co-investment in LNG value chain with PTT?

Answer from PTTEP's management

Global LNG market will continue to be oversupplied and expect to rebalance after 2023 from the growing LNG demands, which are mainly dominated by Asian Market. Hence, the LNG spot price will be low in the short-term and will gradually improve. We believe the LNG value chain investment will be able to capture the industry upturn in the long run.

Question # 5

What would be the structure of PTT-PTTEP LNG value chain?

Answer from PTTEP's management

Main focus on the LNG value chain investment is risk/reward sharing by co-investment with PTT in whole LNG value chain for new LNG projects. The investment concept is to cover from upstream, downstream until LNG shipping, however, the investment structure may be different depending on the opportunities. For the other gas fields which are not related to LNG, the investments will be exclusively carried out by PTTEP.

Question # 6

Will there be any impact on the feasibility of Mozambique project from the low LNG price?

Answer from PTTEP's management

We have seen a significant progress of the project especially on the contractual agreements with the government of Mozambique. We believe that the project is still economic due to our cost competitiveness and the LNG price formula is based on long-term LNG price.

Question # 7

In general term, how much of the upfront fee that the new concessionaire has to pay to the government?

Answer from PTTEP's management

The payment of upfront fee can be varied, which depends on the fiscal regime. For Bongkot, the condition on upfront fee will be defined in the Term of Reference (TOR) which is expected to be available in July-August.

Question # 8

Could you please share your view on the government take for the new concession bidding?

Answer from PTTEP's management

Since the Term of Reference (TOR) has not been finalized, the exact terms and conditions still have high uncertainty. However, we believe that the government take should be higher than Thailand I due to the lower risk of the long-operated fields.



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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.