PTTEP Year-end 2017 Analyst Meeting

Edited Transcript

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15:30 – 17:00 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 Year-end 2017 Analyst Meeting, featuring the announcement of the Company's operating performance of the year 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 today.

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: Key Achievements

Khun Somporn Vongvuthipornchai
Chief Executive Officer

First of all, I would like to extend a happy New Year greeting to all analysts and guests. As usual, today we will be presenting the operating performance of the year 2017. Besides, we will be discussing the strategic direction for 2018 including the 3Rs strategy as we move along.

Slide 3

A Firm Core to Accretive Growth
Reflected in 2017's performance

This slide summarizes the operational and financial performance for 2017. In terms of sales volume, we aimed to achieve the 300 thousand barrels of oil equivalent per day (BOED) target. The actual performance was slightly below the target, mainly due to the low natural gas nomination in the Gulf of Thailand from the impact of LNG import and domestic supply from the alternative sources. However, we had mitigated such negative impact by the production uplift initiatives for liquid products i.e. crude and condensate.

For unit cost, we successfully lowered the unit cost to 29 USD per barrel of oil equivalent (USD/BOE), against the target of 30 USD/BOE. Also, we have been trying to minimize our reliance on domestic market and put more focus on gas and LNG products. We stepped into the LNG value chain business in Malaysia with PTT.

Meanwhile, safety has always been our key priority, in which our safety performance is maintained in the top quartile, and we aim to sustain best safety performance.

Financially, the EBITDA margin was similar to that of the previous year at 70%. The financial position was strong with abundant cash on hand to support M&A opportunities. The full-year proposed dividend payment is 4.25 Baht per share.

Furthermore, we started to see the results of the continuous effort on the M&A during the past couple of years. We have acquired additional 22.2222% stakes in Bongkot from Shell, and at the same time, built up more exploration portfolio through joining hands with experienced operators to bid for two deepwater blocks in Mexico, which I will explain more details later.

Now, Khun Montri will be sharing more on the industry highlights.

PART 2: Industry Highlights

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

Slide 5

Oil Prices

Market upturn despite facing the headwinds from the U.S. supply

To summarize the industry scenario in 2017, one of the key factors determining the oil price was the OPEC and non-OPEC's production cut. In the meantime, the indicator impact the oil price volatility was the additional production from the U.S. With this, we have to keep an eye on the balance between demand and supply. If there is a balance between demand and supply, the oil price is expected to remain quite stable, but if the non-compliance on the production cut increases, the oversupply situation would be prolonged leading to oil price volatility.

In addition, there were a number of factors leading to the improved oil price in 2017; facility disruption mainly in the U.S., crude oil demand growth following global economic expansion as well as geopolitical tension. Overall, the oil price in 2017 had been on the rise since the fourth quarter, which continued through to Q1 2018. In 2018, there has been a mixed viewpoint in terms of analyst consensus that the oil price is going to be either on the low or the high side. All in all, the average Brent oil price has been projected at 63 USD/barrel. Over the long term, we shall be monitoring the demand and supply mechanism in order to determine the price scenarios.

For the outlook in 2018, growth in crude oil demand is expected, led by India and OECD countries, despite the increase in the U.S. production and the Keystone pipeline expansion to facilitate higher production. Another interesting factor that might not have been the attention in 2017 is the depreciation of US Dollar. Therefore, we have to monitor the production policies of key producers and monetary policies of countries that have major impact on the global economy. In summary, the average Brent consensus is 63 USD/barrel.

Slide 6

Global Energy Demand Overview

Changing landscape but fossil fuel remains dominant

Looking on Global Energy Demand, it is believed that the fossil fuel still remains a primary source of energy, with an expected higher growth of natural gas which is considered as cleaner energy. For this reason, some people hold the view that gas is going to be a high-growth potential business over the next 20 years.

The number of EV cars will increase to around 250 million units in the next 20 years. This will insignificantly displace oil demand of around 1.3 million barrel per day. Therefore, the oil demand still exists but in a lower proportion than before while the gas demand is expected to be higher.

Slide 7

Thailand Updates

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

For Thailand, it can be seen on the chart that the amount of LNG supply have been increased during 2015-2017. Especially in 2017, there was a highly use of LNG given its low spot price. As a result, there was a slight decline in domestic gas production from the Gulf of Thailand due to the growth of LNG, while imported gas volumes from Myanmar remained stable. Turning to gas consumption, electricity generation remains key gas consumption. However, there was slight changes in the portion of natural gas consumption over the past 3 years.

Another determining factor is the exchange rate, in 2017 it can be seen the USD had been weakened. The average exchange rate in 2018 is forecasted at around 31.7 Baht/USD with the minimum view of lower than 30 Baht/USD and the maximum of around 34 Baht/USD.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul
Executive Vice President, Finance and Accounting Group

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Sales Volume and Unit Cost

Achieved target sales volume with competitive cost

Key factors affecting the core operating performance are sales volume, unit cost and selling price. Sales volume decreased from that of 2016 by about 6.4% mainly from low gas nomination from PTT, lower crude sales from the PTTEP Australasia project of 7 loads from 9 loads in 2016, the divestment of Oman project and the higher shutdown period of the MTJDA and Bongkot projects. Despite this, we have been attempting to boost liquid production which significantly reflected in the fourth quarter, enabling us to deliver sale s volume that nearly achieved the target of 300 KBOED.

The average selling price has improved from 2016 by about 9% as a result of the better liquid and gas price. The gas price already bottomed out in Q4 2016 and has gradually recovered in 2017. The average gas price in 2017 was 5.59 USD/MMBTU, while liquid price also increased from 41.17 USD/barrel to 52.26 USD/barrel, all in all leading to the improved average selling price.

To further reiterate the positive side, the unit cost reduced from 30.46 USD/BOE to 29.05 USD/BOE, mainly due to lower depreciation expense from 17.79 USD/BOE to 15.11 USD/BOE as a result of more reserves addition at the year-end 2016.

Talking about key components of unit cost, the finance cost rose from the floating interest rate tha t increased in correlation with the global trends. Meanwhile, royalties increased following the higher oil price and the G&A expenses is higher from the annual salary adjustment. Also, the operating expenses rose from 5.08 USD/BOE in 2016 to 5.72 USD/BOE in 2017 mainly from the obsolete stocks write-off. However, all of these scenarios are partially due to the volume effect in a way that cost per unit might increase, despite lower expenses in general. For instance, the lifting cost increased slightly from 4.18 USD/BOE in 2016 to 4.19 USD/BOE in 2017, though the actual lifting cost actually went down.

The exploration expenses decreased from last year. However, the number of wells being written off was higher mainly occurred from some domestic onshore wells that we would rather carried out drilling campaign to access petroleum potential and If the results do not look very promising, we could then withdraw from the area without having to pay the annual retention fees. In addition, there were some pending wells from previous year that we have been finalized the drilling results and decided to write-off in this year.

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Cash Flow Performance

Solid cash flows and liquidity for future growth

We generally generate operating cash flow in range of 2.5-2.6 billion USD if the oil price is moving around 50 USD/BBL level which is in-line with the 2017 performance and we still maintained EBITDA margin of 70%. In terms of use of funds, the operating cash flow was more than enough to fund CAPEX spending of around 1.4 billion USD as well as to support investment in PTTGL of 250 million USD and the dividend payment and other finance cost of 460 million USD and 178 million USD respectively, ultimately leading to more cash on hand compared with that of 2016.

The recurring net income stood at 836 million USD, increasing from 466 million USD in 2016, mainly due to the improved average selling price and lower cost. However, there was a non-recurring items loss of 242 million USD mainly derived from impairment charge from the revision of the Mariana Oil Sands Development plan, offsetting with tax benefits related to Thai Baht appreciation against US Dollar from 35.83 Baht/USD at the end of 2016 to 32.86 Baht/USD at the end of 2017. As always mentioned, the impact on net income is approximately 100 million USD per 1 Baht/USD movement. Therefore, the Baht appreciation of about 3 Baht has led to tax saving of around 300 million USD. As a result, PTTEP's net income for 2017 was reported at 594 million USD.

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Financial Position

Strengthened balance sheet with net cash position

The assets increased from 18.8 billion USD in 2016 to 19.2 billion USD in 2017, mainly contributed from higher cash on hand. In the meantime, the equity increased from 11.3 billion USD in 2016 to 11.5 billion USD in 2017 mainly due to net income of 594 million USD less the dividend payment of 460 million USD. The outstanding amount of interest bearing debt remains the same, however, the change in USD terms during the period was from the effect of FX translation on the Thai Bath Bonds portion. Liabilities increased slightly, mainly from the decommissioning liabilities of approximately 200 million USD.

As usual, the debt profile is 100% USD as we are a dollar-functional company. The average cost of debt increased from 4.41% to 4.50% in 2017 pushing by higher floating interest rate. The average loan life decreased by 1 year from 8.15 to 7.15 years.

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Dividends

Assuring our dividend commitment to shareholders

The dividend payout ratio in 2017 was 90% or 4.25 Baht per share. The Company's Board of Directors and the management approved the payout ratio that is rather high since there was no significant M&A activity in 2017.

Speaking of the policy, our dividend payout policy is actually not less than 30% but we normally paid around 40% level. Thus, in determining the payout ratio, we need to identify several factors including the investment opportunities in a given period of time.

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Sales Volume (excluding additional stakes in Bongkot)

M&As and concession bidding remain key upside

Over the next 5 years, the existing assets are likely to remain pretty stable, allowing us to maintain sales volume, despite a potential sharp drop in 2022 due to the expiration of the Bongkot concession, with the conservative assumption that we are not awarded the new concession. Also, this graph has not taken into account the acquisition of 22.2222% interest of the Bongkot filed, otherwise daily sales volume will be increased by 35 KBOED during 2019-2021. As the acquisition is expected to complete within Q2 2018, sales volume contribution in 2018 will be proportionately realized by 17 KBOED. Lastly, product mix ratio remains unchanged, with 70% of gas and 30% of liquid.

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Investment Plan (excluding additional stakes in Bongkot)

Disciplined spending on core assets for future production growth

The CAPEX and OPEX spending plan over the next 5 years will be about 9 billion USD and 6.5 billion USD, respectively. We have provided CAPEX breakdown to represent CAPEX for producing projects and pre-development projects, which will be discussed in details later. This investment plan has not yet included the CAPEX and OPEX from additional stakes in the Bongkot field, otherwise the CAPEX and OPEX will increase by about 30 million USD and 70 million USD per year roughly.

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Financial Outlook

Expect revenue growth and robust financial performance

For the financial outlook in 2018, we target to deliver sales volume at 300 KBOED, with the low nomination from PTT taken into account and excluding 22.2222% additional stakes in Bongkot. Meanwhile, the average gas price is likely to increase in accordance with the improved oil price environment. We also expect to sustain unit cost at 30 USD/BOE level, slightly increase as the Company plans to uplift liquid production, which generally higher cost than gas production together with the recognition of more completed assets during the year. Last but not least, the EBITDA margin has been projected to remain at 70% as usual.

PART 4: Strategy and Growth

Khun Somporn Vongvuthipornchai
Chief Executive Officer

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A Firm Core Sustained by 3Rs Strategy

RESET to optimize cost level and uphold competitiveness

Moving on to the strategic direction for 2018, the focus is still placed on the 3Rs strategy; RESET, REFOCUS and RENEW. The purpose of 'RESET' is to optimize the cost structure and keep the unit cost low in order to stay competitive among peers. This included the attempt to maintain production and sales volume from existing projects in accordance with the plan of 300 thousand BOED. It is possible that there will be a negative impact on the gas nomination in the Gulf of Thailand due to the alternative energy sources and LNG import given low LNG spot prices, similar to last year. We therefore continue the mitigation plan by maximizing oil and condensate production through selecting to produce from wells that have high liquid yield. At the same time, we have been expanding our sales in oversea market especially Myanmar, given its higher demand for gas.

For capital management, we ensure the effective financial management through the use of PTTEP Treasury Center as the financial center of PTTEP group. We also restructure our organization and work processes to enhance operational efficiency. In terms of cost management, we have realized the cost saving of approximately 200 million USD in 2017 from 'SPEND SMART' cost efficiency campaign. This cost saving achievement was one of the Board of Directors' consideration to distribute to shareholders through dividend. Apart from the cost efficiency initiatives, there are also a number of other initiatives that aim to enhance operational efficiency, and we would continuously implement these initiatives for more savings and higher efficiency.

Speaking of the unit cost, our goal is to maintain the unit cost at around 30-31 USD/BOE for 2018, despite the impact from more liquid production which has higher unit cost in general, as mentioned earlier by Khun Pannalin.

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A Firm core Sustained by 3Rs Strategy

REFOCUS for sustainable future growth

The rationale of 'REFOCUS' is to ensure sustainable future growth. One key factor for growth is M&A that we would need to capitalize on in order to improve our reserve life which currently stands at 5 years. One of the results from our continued efforts of M&A during the past years was acquisition of additional 22.2222% stakes of Bongkot field from Shell. With regards to the M&A, we focus on areas that we are familiar with, especially Southeast Asia. The Southeast Asia market however has rather low number of transactions, and thus we have expanded the investment horizon to the Middle East or areas that have high petroleum potential, low risk, good operators, and low production cost.

On exploration front which could support long-term growth, in Americas, we currently have exploration projects in Brazil. Also, Mexico has opened bidding rounds, which we had looked into since the first bid round but has just finally secured deepwater blocks through consortiums with experienced operators who are familiar with deepwater. One of them is Repsol, a Spanish company whose focus in operation in North America, Latin America, and Southeast Asia where PTTEP have collaboration with. The other one is Petronas, who also has experience in deepwater exploration and exploration projects in Mexico. With that being said, we therefore pursue this exploration opportunity and allocate exploration budget for these projects which also help diversify our current portfolio. In addition, our exploration plan in the focused area also features seismic assessment and wells drilling in deepwater, onshore and Zawtika in Myanmar. For LNG value chain, we continue to look for more opportunities to invest in LNG projects together with PTT.

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Firm core Sustained by 3Rs Strategy

REFOCUS for sustainable future growth

Besides exploration and M&A, one key priority is the bidding of expiring concessions (in Thailand). The Minister of Energy gave interview that the Terms of Reference shall be released in March and the bidding will be concluded by the end of 2018. Then, the execution or signing of the agreement shall be completed by February 2019. For Bongkot, we will bid with the current partner i.e. Total, after we have acquired additional 22.2222% of Bongkot from Shell. For Erawan, we are discussing with Chevron regarding the stakes and bidding conditions. If we and Chevron can agree on those terms, we will be bidding with Chevron, nonetheless, we will be bidding on our own, in which we believe we are ready and familiar with the operations in the Gulf of Thailand.

For pre-FID projects, we are trying to push for the sanction of four key pre-FID projects, as it can help add proved reserves for the Company. The first one is the Mozambique LNG project which yielded a significant progress. The key legal framework and development plan had already been approved by the government. The resettlement action plan i.e. preparation of site to build LNG facilities which has quite a long lead time, had already been commenced since late last year. Recently, PTT's Board of Directors had approved the LNG sales and purchase agreement (SPA) to offtake 2.6 million tons per annum (MTPA) from the project, and now awaiting for the government approval before the SPA execution. From the news, this approval process was slightly delayed as the Ministry of Energy would like to align the LNG import plan including the SPA from Mozambique project with the new version of Power Development Plan (PDP) and Gas Plan that should be finalized by March 2018. Also, the recent development is that the first SPA was signed with a European firm to offtake 1.2 MTPA for 15-year duration from our project. Meanwhile, we are looking for opportunities to secure more SPAs in markets like Japan and Europe.

Another project is Southwest Vietnam, where we have only a minor stakes of around 7%-8%. To date, the letter of agreement on wellhead gas prices and pipeline tariff was signed in Q3 2017, but the commercial agreements are yet to be finalized. PetroVietnam, the operator, would like to sanction this project by the end of 2018, and we shall give all cooperation to materialize such goal.

For the Algeria HBR, we have submitted the development plan, and are waiting for the approval from the government. Lastly, we are in the process of conducting the FEED (front-end engineering design) study for Ubon (Contract 4) project. We provide full support to accelerate the development of this field in which the Company has 60% stake in this project.

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A Firm core Sustained by 3Rs Strategy

RENEW to adapt in response to changing industry landscape

Lastly, 'RENEW'. We prepared the organization for the future. Going forward, we are still focusing on E&P business as we believe that energy from fossil fuel is still going to remain the key sources for the next 20-30 years. Meanwhile, gas will continue to be the popular choice, together with the potential increasing renewable energy sources. We therefore anticipate high competition in the E&P business, and increasing uses of advanced technology in the industry. In order to adapt, we have prepared and equipped ourselves with capabilities for the future, established new business units and reorganized by having President, E&P oversighting throughout E&P business chain to ensure best integration. More importantly, we need to transform the way of working in the E&P business in terms of human resources competencies and culture, processes and technology. Adaptation to these have been progressed in the organization since the past few years, and now have become key focus in light of the current trend, especially in terms of digital technology and the uses of big data, robotics and artificial intelligence (AI) to benefit the operations e.g. digital oil field, seismic activity efficiency, technology related to maintenance and drilling activities.

Meanwhile, we are also looking to develop new businesses, for instance, LNG and gas business in oversea market. With our 30-year experience of operating in Myanmar, we are looking at potential of 'gas-to-power' in Myanmar through converting our natural gas resources into power to supply into Myanmar, as Myanmar is in high demand for power.

Furthermore, we have set up a dedicated team to study the potential of renewable energy throughout its value chain, including solar and battery, to identify our potentials or opportunities in these areas, where we can leverage the Company's competitive advantage and core competencies. Thus, the key idea behind 'RENEW' is to prepare the Company for the future and to equip ourselves with capabilities required to stay competitive in the long run.

This is what I would like to share on the 3Rs strategy; RESET, REFOCUS, RENEW. Now, we open the floor for Q&A.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

Will there be any impacts to the operation if the timeline of Bongkot/Erawan's bidding is further delayed? Will there be any change on gas price formula in the new bidding?

Answer from PTTEP's management

There is no interruption to production as long as the decision is made within 2018, however, we believe that the further delay would result in less flexibility for operator which in turn imposing the risks to the government on the production continuity. The gas price formula will be included in the terms of reference (TOR) which is expected to announce in March.

Question # 2

From the company's RENEW strategy in the area of renewables, will it overlap with the business of other PTT group companies?

Answer from PTTEP's management

We are now exploring the opportunities in renewables, focusing on parts of the value chain that we can leverage or enhance our areas of expertise.

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

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Forward-looking Information

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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.*