

Executive Summary

PTTEP's financial performance in Q1/2017 was largely supported by gradual recovery in global crude oil prices since late 2016 and continued into Q1/2017, which resulted in an increase in PTTEP's average selling price. Together with unit costs which were 14% lower than the previous quarter, the Company managed to successfully maintain its strong financial position, and generated positive operating cash flow of 688 MMUSD, while delivering an earnings before interest, tax, depreciation and amortization (EBITDA) margin of 74% during the quarter.

In Q1/2017, the Company reported sales revenue of 1,040 MMUSD, a similar level to that of the previous quarter. Average selling prices for this quarter rose by 7% to 38.00 USD per barrel of oil equivalent (BOE) from 35.65 USD/BOE in Q4/2016, while sales volume for Q1/2017 stood at 304,108 barrels of oil equivalent per day (BOED), a 4% decrease from 316,307 BOED in Q4/2016, mainly due to the planned maintenance shutdown of projects in Myanmar. Sales volume in this quarter was lower than expected due to decreased production from the MTJDA Project as the Malaysian buyer was not able to receive natural gas as planned; the situation is expected to be resolved in early Q3/2017. From an expenditure point of view, total expenses before income taxes was lower quarter-on-quarter, from 901 MMUSD in Q4/2016 to 754 MMUSD in Q1/2017, primarily due to lower depreciation expenses arising from reserves addition mainly in the Arthit Project at the end of 2016. As a result, the Company saw a 14% reduction in overall unit costs, decreasing to 27.54 USD/BOE in Q1/2017 from 31.89 USD/BOE in Q4/2016.

The Company reported a recurring net profit for Q1/2017 of 211 MMUSD, and non-recurring gains of 138 MMUSD, for a total net profit of 349 MMUSD. The non-recurring gains were mainly attributed to gains and tax savings arising of 130 MMUSD, arising from the appreciation of the Thai Baht relative to the US Dollar during the quarter.

PTTEP's financial position as at the end of Q1/2017 remained strong, with total assets amounting to 19,251 MMUSD, of which 4,446 MMUSD was cash and short-term investments; while total liabilities were reported at 7,800 MMUSD in which interest-bearing debt accounted for 2,863 MMUSD; and total shareholders' equity ended at 11,451 MMUSD.

Table of key financial results

(Unit: Million US Dollar)	Q4 2016	Q1 2017	Q1 2016	% Inc. (Dec.) QoQ	% Inc. (Dec.) YoY
Total Revenue *	1,089	1,092	1,085	0.3	0.6
Sales Revenue *	1,038	1,040	1,045	0.2	(0.5)
EBITDA	690	776	789	12	(2)
Profit(loss) for the period	(16)	349	157	>100	>100
Basic earnings(loss) per share from continuing operations (Unit: USD)	(0.01)	0.09	0.04	>100	>100
Profit from normal operation	123	211	116	72	82
Profit(loss) from non-recurring items	(139)	138	41	>100	>100

* Revenue from continuing operations

Economic Overview in the first quarter of 2017

Crude Oil Prices

Crude oil prices are a key driver of PTTEP's financial performance. Following an agreement between both OPEC and non-OPEC members for a production cut in December 2016, Dubai oil prices increased to an average of 53.03 USD/barrel in Q1/2017, a 10% rise from the previous quarter average of 48.32 USD/barrel. Positive factors supporting the crude price increase included compliance by OPEC and non-OPEC to uphold the production cut agreement – most notably OPEC which has achieved 94% of its production cut target; the re-sanctioning of Iran by the United States of America (the US) over Iran's missiles test; and lower crude production from Libya due to the recapture of oil ports by East Libyan Forces. However, crude oil prices were also pressured by negative factors such as the US Federal Open Market Committee (FOMC)'s interest rate hike during mid-March, and additional supply from the US production which has been increasing since mid-2016 following the crude price recovery, and resulting in the accumulation of the US crude inventories. As a consequence, crude oil prices showed only a modest improvement, and fluctuated in the range of 48-55 USD/barrel.

Thailand's Energy Demand

Thailand's energy demand from January to February of 2017 stood at 2.10 million BOED, decreasing slightly, by 0.3%, relative to the same period of the previous year (Source: EPPO, The Ministry of Energy), which partly reflected the higher crude oil prices.

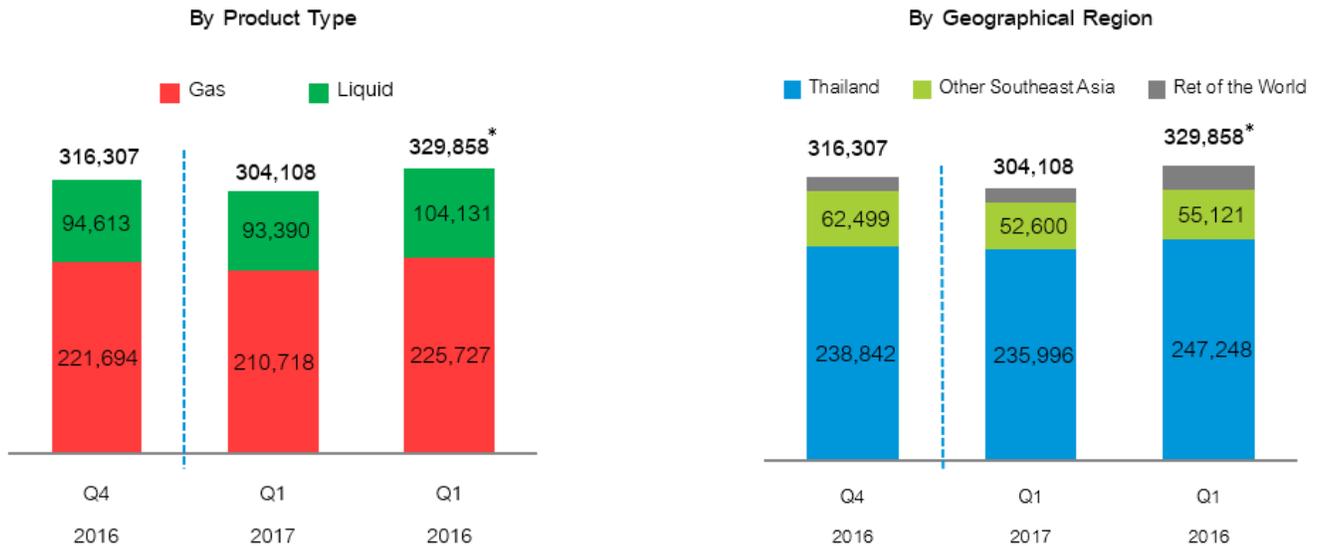
Exchange Rates (Thai Baht against US Dollar)

With PTTEP's functional currency being the US Dollar, the Thai Baht to US Dollar exchange rate is another factor affecting the Company's financial performance because PTTEP's currency for tax filing is the Thai Baht. The Thai Baht appreciated during Q1/2017 despite the FOMC increasing interest rates by 0.25% in mid-March, to the range of 0.75% to 1.00%. Thailand and emerging market economies saw their currencies appreciate because of an inflow of capital back into the region due to expectations that FOMC may raise interest rates at a slower pace than previously speculated, as well as the a lack of clarity on the US economic stimulus policy, and the increasing uncertainty on the US government's ability to put through its policies. These factors resulted in Thai Baht to US Dollar exchange rate closing stronger at 34.45 THB/USD in the end of Q1/2017, an appreciation of 1.38 THB/USD from 35.83 THB/USD at the end of Q4/2016, leading to gains and tax savings for PTTEP.

Financial Performance

Average Sales Volume

Unit: Barrels of Oil Equivalent per Day



*Included sales volume of Oman 44 Project

Average selling price and Dubai crude oil price (Unit : US Dollar)	Q4 2016	Q1 2017	Q1 2016	% Inc. (Dec.) QoQ	% Inc. (Dec.) YoY
Average selling price (\$/BOE)	35.65	38.00	35.08	7	8
Average Dubai crude oil price (\$/BBL)	48.32	53.03	30.42	10	74

For First quarter of 2017 compared with Fourth quarter of 2016

Average sales volume for Q1/2017 of PTTEP and its subsidiaries (the "Group") was 304,108 barrels of oil equivalent per day (BOED), a decrease from Q4/2016 of 316,307 BOED. The decrease was primarily from the Contract 4 Project. During Q1/2017, average selling price increased to 38.00 USD/BOE (Q4/2016: 35.65 USD/BOE).

For First quarter of 2017 compared with First quarter of 2016

When compared the average sales volume for Q1/2017 to Q1/2016 of 329,858 BOED, it was decreased primarily from the PTTEP Australasia Project. During Q1/2017, average selling price increased to 38 USD/BOE (Q1/2016: 35.08 USD/BOE).

Financial Performance (Continued)

Overall Operating Results

For First quarter of 2017 compared with Fourth quarter of 2016

In Q1/2017, the Group had a net profit of 349 MMUSD, an increase in operating results of 365 MMUSD or more than 100% from net loss in Q4/2016 of 16 MMUSD. The increases in profit were primarily due to 1) decrease in income tax expense of 141 MMUSD mainly from an appreciation of Thai Baht against US Dollar, 2) decrease in depreciation, depletion and amortization expenses of 89 MMUSD mainly from an increase in the petroleum reserves, 3) decrease in administrative expenses of 51 MMUSD and during Q1/2017, the Group did not recognize any impairment loss on assets, while during Q4/2016, the Group recognized an impairment loss on assets of 47 MMUSD.

In Q1/2017, the Group reported profit from non-recurring items of 138 MMUSD, an increase in operating results of 277 MMUSD when compared with loss from non-recurring items in Q4/2016 of 139 MMUSD. The increase was primarily due to a decrease in income tax expenses related to changes in foreign exchange rate of 217 MMUSD from an appreciation of Thai Baht against US Dollar.

For First quarter of 2017 compared with First quarter of 2016

When compared a net profit for Q1/2017 with the same period last year of 157 MMUSD, the increases of 192 MMUSD or more than 100% were primarily due to decreases in depreciation, depletion and amortization expenses of 98 MMUSD mainly from an increase in the petroleum reserves as well as a recognition of gain on oil price hedging of 25 MMUSD during Q1/2017, while in Q1/2016, the Group recognized loss on oil price hedging of 30 MMUSD.

In Q1/2017, the Group reported profit from non-recurring items of 138 MMUSD, an increase of 97 MMUSD when compared with profit from non-recurring items of 41 MMUSD in Q1/2016. The increase was primarily due to a recognition of gain on oil price hedging of 25 MMUSD during Q1/2017, while in Q1/2016, the Group recognized loss on oil price hedging of 30 MMUSD. The Group also had a decrease in income tax expenses related to changes in foreign exchange rate of 42 MMUSD from an appreciation of Thai Baht against US Dollar.

Financial Performance (Continued)

Operating Results by Segments

Net Profit (loss)	Q4	Q1	Q1	%	%
(Unit: Million US Dollar)	2016	2017	2016	Inc. (Dec.)	Inc. (Dec.)
				QoQ	YoY
Exploration and production	31	214	127	>100	69
Thailand	105	198	190	89	4
Overseas	(74)	16	(63)	>100	>100
- Other Southeast Asia	(45)	23	(13)	>100	>100
- Australia	(17)	(4)	(48)	76	92
- America	(2)	-	1	100	(100)
- Africa	(10)	(3)	(3)	70	-
Pipeline transportation	45	43	52	(4)	(17)
Head office and others	(109)	92	(23)	>100	>100
Discontinued Operations	17	0	1	(100)	(100)
Total	(16)	349	157	>100	>100

For First quarter of 2017 compared with Fourth quarter of 2016

For Q1/2017, the Group reported a net profit of 349 MMUSD, an increase in operating results of 365 MMUSD or more than 100% from net loss for the fourth quarter of 2016 of 16 MMUSD, primarily due to an increase in operating results of head office and others segment as well as exploration and production segment.

Head office and others segment

For Q1/2017, the head office and others segment reported a net profit of 92 MMUSD, an increase in operating results of 201 MMUSD or more than 100% from net loss in Q4/2016 of 109 MMUSD, primarily due to a decrease in tax expenses related to changes in foreign exchange rate from an appreciation of Thai Baht against US Dollar.

Exploration and production segment

- *Thailand*

For Q1/2017, Thailand reported a net profit of 198 MMUSD, an increase of 93 MMUSD or 89% from a net profit in Q4/2016 of 105 MMUSD. The increases were primarily due to a decrease in depreciation, depletion and amortization expenses as a result of an increase in the petroleum reserves mainly from the Arhit Project as well as a decrease in tax expenses related to changes in foreign exchange rate from an appreciation of Thai Baht against US Dollar.

- *Overseas*

Overseas reported a net profit of 16 MMUSD, an increase in operating results of 90 MMUSD or more than 100% from a net loss in Q4/2016 of 74 MMUSD, primarily due to an improvement in operating results of Other Southeast Asia and Australia.

Financial Performance (Continued)

- The Other Southeast Asia reported a net profit of 23 MMUSD, an increase in operating results of 68 MMUSD or more than 100% from a net loss in Q4/2016 of 45 MMUSD, primarily due to a recognition of impairment loss on assets during Q4/2016, while there was no impairment loss on assets recognized during Q1/2017.
- The Australia reported a net loss of 4 MMUSD, a decrease in net loss of 13 MMUSD or 76% from a net loss in Q4/2016 of 17 MMUSD. The decrease was primarily due to a decrease in depreciation, depletion and amortization expenses as a result of an increase in the petroleum reserves.

For First quarter of 2017 compared with First quarter of 2016

For Q1/2017, the Group reported a net profit of 349 MMUSD, an increase of 192 MMUSD or more than 100% from a net profit in Q1/2016 of 157 MMUSD. The increase was primarily due to an increase in operating results of head office and others segment as well as exploration and production segment.

Head office and others segment

For Q1/2017, the head office and others segments reported a net profit of 92 MMUSD, an increase in operating results of 115 MMUSD or more than 100% from a net loss in Q1/2016 of 23 MMUSD, primarily due to a recognition of gain on oil price hedging and a decrease in tax expenses related to changes in foreign exchange rate from an appreciation of Thai Baht against US Dollar.

Exploration and production segment

- *Thailand*

For Q1/2017, Thailand reported a net profit of 198 MMUSD, an increase of 8 MMUSD or 4% from a net profit in Q1/2016 of 190 MMUSD. The increase was primarily due to a decrease in depreciation, depletion and amortization expenses as a result of an increase in the petroleum reserves, mainly from the Arthit Project, while it had an increase in income tax expenses.

- *Overseas*

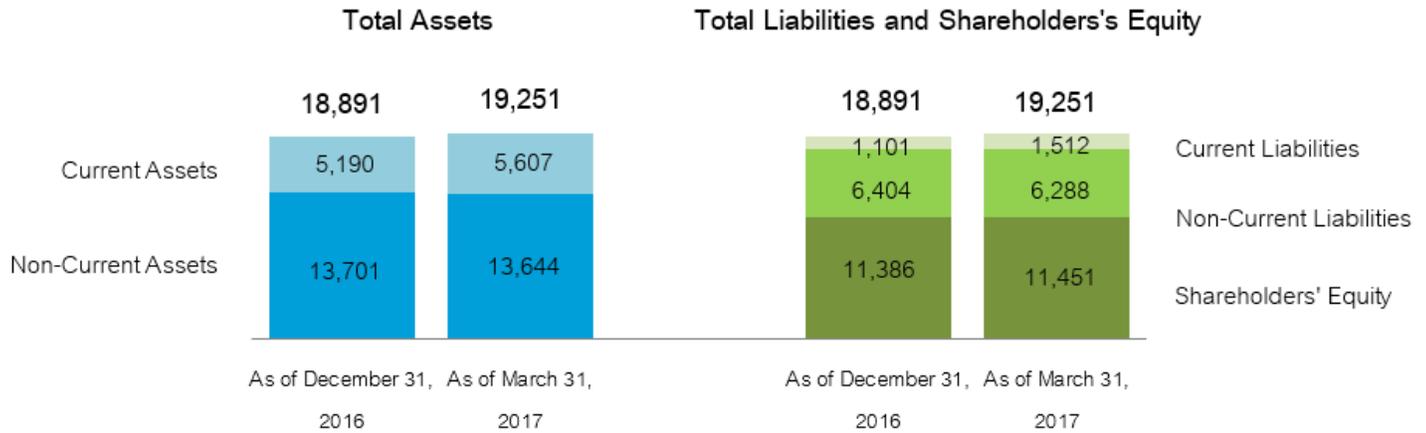
For Q1/2017, Overseas reported a net profit of 16 MMUSD, an increase in operating results of 79 MMUSD or more than 100% from a net loss in Q1/2016 of 63 MMUSD, primarily due to an increase in operating results of Australia and Other Southeast Asia.

- The Australia reported a net loss of 4 MMUSD, a decrease in net loss of 44 MMUSD or 92% from a net loss in Q1/2016 of 48 MMUSD. The decrease was primarily due to a decrease in depreciation, depletion and amortization expenses and increase in the petroleum reserve.
- The Other Southeast Asia reported a net profit of 23 MMUSD, an increase in operating results of 36 MMUSD or more than 100% from a net loss in Q1/2016 of 13 MMUSD, primarily due to decreases in 3D seismic expenses in the M11 Project and a decrease in income tax expenses in the Yadana and Yetagun Projects.

Financial Performance (Continued)

Financial Position

Unit: Million US Dollar



Assets

As at March 31, 2017, the Group had total assets in the amount of 19,251 MMUSD (equivalent to 663,207 MMTHB), an increase of 360 MMUSD from the total assets as of December 31, 2016 of 18,891 MMUSD (equivalent to 676,890 MMTHB), primarily due to;

(1) Current assets, which were primarily comprised of cash and cash equivalents, short-term investments and account receivable – parent company, increased by 417 MMUSD mainly due to an increase of 424 MMUSD in cash and cash equivalents and short-term investments.

(2) Non-current assets, which were primarily comprised of 1) exploration and production assets in joint venture projects that are recognized as part of the property, plant and equipment 2) exploration and evaluation assets and 3) goodwill, decreased by 57 MMUSD mainly due to a decrease in depreciation, depletion and amortization expenses even though the Group had additional investment in exploration and production assets during the period.

Liabilities

As at March 31, 2017, the Group had total liabilities of 7,800 MMUSD (equivalent to 268,710 MMTHB) which include interest-bearing debt of 2,863 MMUSD, an increase by 295 MMUSD from total liabilities as at December 31, 2016 of 7,505 MMUSD (equivalent to 268,906 MMTHB), primarily due to;

(1) Current liabilities, which were primarily comprised of income tax payable, accrued expenses, and dividend payable, increased by 411 MMUSD mainly due to the dividend payable for the second half of 2016 in the amount of 288 MMUSD which will be subsequently paid in April 2017, income tax payable for the year ended 2016 of 96 MMUSD and current portion of debentures of 73 MMUSD.

(2) Non-current liabilities, which were primarily comprised of debentures, provision for decommissioning costs and deferred tax liabilities, decreased by 116 MMUSD mainly from reclassification of debentures due within one year to current liabilities.

Financial Performance (Continued)

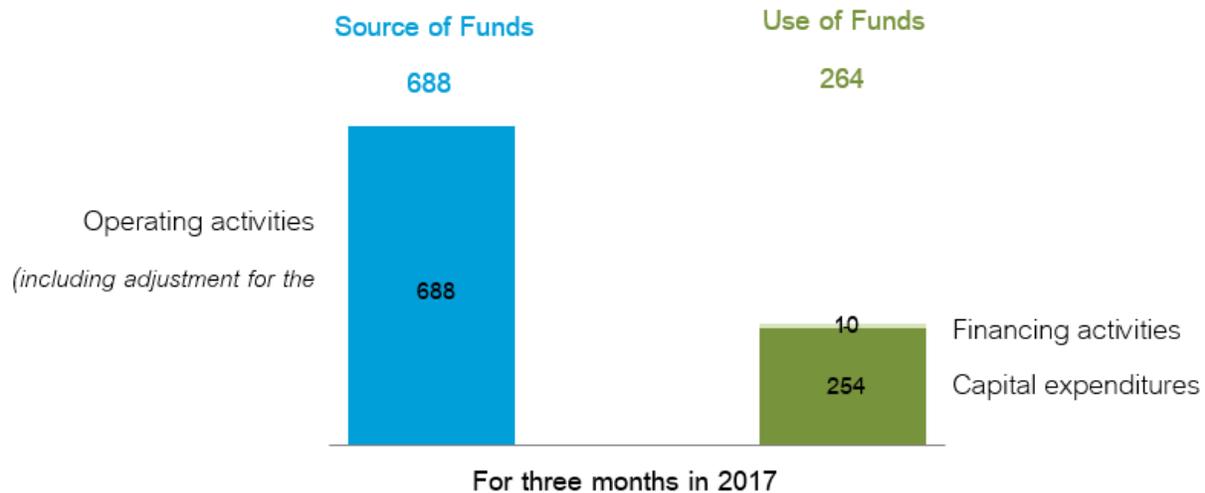
Capital Structure

As at March 31, 2017, the capital structure comprised of shareholders' equity in the amount of 11,451 MMUSD and total liabilities of 7,800 MMUSD, including the interest-bearing debts of 2,863 MMUSD with a weighted average cost of debt of 4.44% and the average maturity of 7.9 years. All interest-bearing debts are denominated in US Dollar currency. The proportion of the fixed interest rates to the floating interest rates is 80:20.

In Q1/2017, the Group did not engage in financing activities that impact the Group's capital structure.

Cash Flows

Unit: Million US Dollar



As at March 31, 2017, the Group had cash and cash equivalents, including short-term investment in the form of bank fixed deposit with a maturity of more than three months, but within twelve months of 4,446 MMUSD, an increase of 424 MMUSD from cash and cash equivalents as at December 31, 2016 of 4,022 MMUSD.

Sources of funds in the amount of 688 MMUSD primarily came from **Net cash received from operating activities** as a result of the positive net cash flows from sales revenues, offset with cash payments for expenditures and income tax expenses.

Uses of funds in the amount of 264 MMUSD primarily came from **Net cash used in additional investment activities** for exploration and production assets, primarily for the Zawtika, Contract 4 and Arthit Projects, **Net cash used in financing activities** which mainly for the payment of interests.

Financial Performance (Continued)

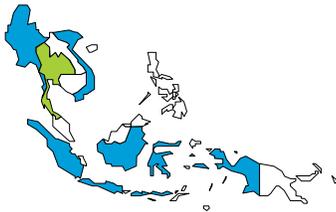
Key Financial Ratios

	Q4 2016	Q1 2017	Q1 2016
Profitability Ratio (%)			
EBITDA to revenue from sales	65.48	73.70	73.73
Return on equity	3.28	4.96	(8.05)
Net profit margin	8.51	12.91	(17.96)
Leverage Ratio (Times)			
Debt to equity	0.25	0.25	0.27
Debt to EBITDA	0.94	0.95	0.85

Remark:

EBITDA to revenue from sales	=	Profit before deduction of interest, tax and depreciation to revenue from sales including revenue from pipeline transportation
Return on equity	=	Net profit to weighted average shareholders' equity for the past 12 months
Net profit margin	=	Net profit to total revenue for the past 12 months
Debt to equity	=	Interest Bearing Debt to total shareholders' equity
Debt to EBITDA	=	Interest Bearing Debt to profit for the past 12 months before deduction of interest, tax and depreciation

Operational Highlights



Thailand and Southeast Asia



America



Australasia



Africa

As of the first quarter of 2017, PTTEP's domestic and international operations altogether sum to 37 projects in 10 countries with key project highlights as follows;

Projects in Thailand

PTTEP currently has 16 projects in Thailand, the majority of which are in the **production phase**. These projects are located in both the Gulf of Thailand and onshore; including the Bongkot Project, the Arthit Project, the S1 Project, and the Contract 4 Project, where operations were carried out continuously to maintain the production plateau. For the first quarter of 2017, total sales volume from projects in Thailand amounted to 235,996 BOED, accounting for 78% of PTTEP's total sales volume.

Projects in Southeast Asia

PTTEP has 14 projects in this region which are located in the Republic of the Union of Myanmar (Myanmar), the Socialist Republic of Vietnam (Vietnam), the Federation of Malaysia (Malaysia) and the Republic of Indonesia (Indonesia). Sales volume for the first quarter of 2017 from the projects in the Southeast Asia region amounted to 52,600 BOED, representing 17% of PTTEP's total sales volume.

Highlights of key projects in the **production phase** within this region can be summarized as follows. The **Zawtika Project**, located in the Gulf of Moattama, Myanmar, has maintained its production as planned. The project is in the process of drilling additional producing wells in Phase 1B and constructing 4 production platforms in Phase 1C with the objective to support the production plateau. Current gas sales volume was 272 MMSCFD (approximately 42,345 BOED). The **Vietnam 16-1 Project**, located offshore in the southeast of Vietnam, recorded crude oil sales volume of 20,206 BPD. The project has begun the production of crude oil from 3 new wells as planned in order to maintain the production levels. In addition, the project is in the process of drilling more appraisal wells and development wells, and expects these to be completed within the second quarter of 2017.

For projects in the **exploration phase**, major highlights include the **Myanmar M3 Project**, which is located offshore in the Gulf of Moattama, Myanmar. The commercial feasibility and resource potential for this project are still being assessed. The **Myanmar M11 Project**, located offshore, and the **Myanmar MD-7 Project**, located in the deep water area in the Gulf of Moattama, Myanmar, are currently being assessed for the fields' resource potential. The **Myanmar MOGE-3 Project**, located onshore in the Central Myanmar Basin, is in the process of carrying out 2D and 3D seismic surveys which are scheduled to be complete by mid - 2017. The **Sarawak SK410B Project**, located offshore Sarawak, Malaysia, is preparing for 3D seismic activities scheduled to begin in mid - 2017.

Operational Highlights

Projects in the American

PTTEP has 3 projects in this region located in Canada and the Federal Republic of Brazil (Brazil).

All projects are in *Exploration Phase*. The **Mariana Oil Sands Project**, located in Alberta, Canada, submitted the development proposal for Thornbury Phase 1 to the government of Alberta in May 2015 with expectation to receive official approval within the first half of 2017. The project is re-assessing the investment strategy to reduce costs and to mitigate development risks in response to the low oil price environment.

PTTEP has 2 projects in Brazil. The **Barreirinhas AP1 Project** is located in the Barreirinhas Basin, offshore to the northeast of Brazil. Currently, the project is in the process of evaluating the basin's petroleum potential through 3D seismic activity. The **BM-ES-23 Project**, located offshore in the Espirito Santo basin, east of Brazil, is currently studying the petroleum potential for preparation of the development plan.

Projects in Australasia

PTTEP has 1 project in this region which is located in the Commonwealth of Australia (Australia), and comprises 12 permits.

Fields in the *production phase* include the **Montara Field**, which the sales volume for the first quarter of 2017 averaged 10,653 BPD, in line with the production plans.

The **Cash Maple Field** is in *exploration phase*. Currently, the project is carrying out the Pre-FEED study which is scheduled to be completed by the end of 2017 for further preparation of the development plans.

Projects in Africa

PTTEP has 3 projects in this region, located in the People's Democratic Republic of Algeria (Algeria) and the Republic of Mozambique (Mozambique).

The **Algeria 433a and 416b Project**, which is in *production phase*, and is located onshore in the eastern part of Algeria, successfully marked its first sales of crude oil in late 2015. Production volume for the first quarter of 2017 has averaged 18,885 BPD.

The **Algeria Hassi Bir Rekaiz Project**, which is in the *exploration phase*, and is located onshore in the eastern part of Algeria, successfully finished a drilling campaign with satisfactory crude oil and natural gas flow rates. Currently, the project's development plans are being prepared to be submitted to the Algerian government within 2017.

The **Mozambique Rovuma Offshore Area 1 Project**, which is also in the exploration phase, is a large gas project located at offshore Mozambique. During the first quarter of 2017, the project made progress in the negotiation of key contracts with the government of Mozambique which have now been officially promulgated and enacted; and has received official approval for the Resettlement Action Plan. The project is currently in the process of finalizing the LNG off-take agreements, and negotiating for project finance with financial institutions to support the Final Investment Decision (FID) for the project.

Company Strategy

To enhance competitive advantage and sustainable growth under the current oil price environment, the Company continuously carries out its operation through the concept of “RESET REFOCUS RENEW”.

RESET the cost structure to maintain competitiveness in the industry

- Build and instill a cost-conscious DNA in every employee
- Optimize work processes for efficient cost management to become competitive with the leading companies in the industry
- Prioritize investments in projects with competitive cost structure under the low oil price environment

REFOCUS investment plan towards areas of high expertise

- Increase investments in Thailand and Southeast Asia, especially in Myanmar, the areas which PTTEP has extensive experience in and has low cost structure and low risks
- Synergize with PTT in LNG business to meet the country’s growing energy demand in the future
- Consider investment opportunities in new areas with low cost structure, such as the US shale plays and the Middle East oil fields

RENEW long-term strategy for sustainable growth

- Focus on research and development to lower costs and improve efficiencies in the E&P business
- Expand investment horizons related to the E&P business to diversify sources of revenues and return on investments
- Explore and evaluate new business opportunities with growth prospects based on the existing experiences and capabilities of human resources in the Company

Capital Management

PTTEP also focuses on ensuring effective financial management through maintaining a robust capital structure. The Company’s current debt-to-equity ratio of less than 0.3x as of the first quarter of 2017, provides adequate liquidity to cushion for uncertainties in oil prices and the global economy. The Company also simulates various oil price and exchange rate scenarios to assess risk factors and prepare mitigation plans.

As of the first quarter of 2017, the Company has cash on hand of approximately 4.4 billion USD which will be used to fund capital expenditures to maintain production, develop future projects in the pipeline, and carry out exploration activities as well as support new investment opportunities through Merger and Acquisition activities (M&A).

Portfolio Management

PTTEP continues to undertake portfolio management activities to achieve an optimal balance between project value-added and risk management through the consistent study and analysis of pertinent investment factors to keep abreast of the constant changes in the industry, social, economic, and political landscape, and to incorporate these variables into investment considerations and decisions. The Company’s investment plan also has the flexibility to be adjusted appropriately to suit changes in the oil price environment.

Company Strategy (Continued)

The Company places great focus on adding petroleum reserves in the future. The majority of the reserves addition is expected from the development projects including the Contract 4 (Ubon Field), the Mozambique Rovuma Offshore Area 1 Project, and the Algeria Hassi Bir Rekaiz Project. M&A deals will also be reserve contributors. The Company is awaiting results of a few submitted bid proposals, with particular focus on producing assets or those which are in the final stage of development and close to production, located mainly in the South East Asian region where the operating risk is moderately low due to market readiness, and where there is potential reserve contribution and prospects of attractive returns. In the longer term, the Company plans to accelerate exploration and drilling activities in exploration projects in the portfolio as well as seeking opportunities in strategic areas.

Major portfolio rationalization activities during the first quarter of 2017 included the selection of Total E&P Myanmar (TOTAL) as a joint-partner in the Myanmar MD-7 Project. The entry of TOTAL, who possesses world class knowledge and experience in oil and gas exploration, will balance the risk management as well as enhance the value of the project. The Company also dissolved 6 non-active subsidiaries. The dissolution of subsidiaries is part of PTTEP’s policy to increase efficiency and reduce administrative costs with no impact to business operations.

Cost Management

Given the continuity in oil price volatility, the cost reduction plans, and the improvement of operational efficiency remain our priorities. PTTEP has adopted the RESET strategy to reduce cost, streamline the organization structure, instill a cost-conscious culture and maintain competitiveness in the industry under the **SAVE to be SAFE program** since 2014. The Company actively pursues a number of cost reduction initiatives, such as the reduction in number of drilling days and cost, optimization of wellhead platform design, contract renegotiations on current and future equipment rental and services, and logistical optimization through reducing number of supply boats as well as optimizing inventory management. During 2016, PTTEP introduced the **SPEND SMART to Business Sustainability campaign** with the theme “Think Smart, Work Smart for Better Efficiency” to strengthen its effort on further cost optimization initiatives to become a low cost operator with long-term competitive advantages and sustainable growth.



- Think Smart:** Alter the frame of thoughts by focusing on cost efficiency and productivities gain (Cost Benefit Analysis) under limited budget and applying to all activities
- Work Smart:** Remain efficiency in current working processes, while searching for new methodology to meet work objectives at the lower cost
- For Better Efficiency:** Productivity, efficiency and long-term competitiveness

Sustainable Development

PTTEP persistently strives to become a sustainable development organization on both domestic and international platforms. In the first quarter of 2017, PTTEP continued its participation in the United Nations Global Compact (UNGC) for the sixth year and adherence to the ten principles in the four areas of human rights, labor standards, environment, and anti-corruption. Having demonstrated utmost compliance to the Compact, PTTEP is 1 of 4 companies to receive an Advanced Level certification, out of 35 companies. PTTEP is also 1 of 15 founding members of Global Compact Network Thailand (GCNT) whose mission is to elevate the importance of upholding the UNGC sustainability principles among related parties. In addition, PTTEP also published its 2016 Sustainability Report during this period.

PTTEP, as a leading sustainable organization, commits to the vision of becoming a leading Asian E&P company driven by competitive performance, advanced technology and green practices. In order to continuously enhance PTTEP’s sustainable development practices, the Company has outlined a sustainable development plan, both short-term and long-term, around the three areas: business, social, and environment. Key activities during the first quarter of 2017 are as follows.

Company Strategy (Continued)

Business

PTTEP provides support in research and development of technologies and innovations, as well as in the development of knowledge and technological framework to enhance the organization's competitiveness and sustainable development. In the first quarter of 2017, PTTEP collaborated in research and technology development with a number of academic institutions and private organizations, both domestically and internationally, such as Japan Oil, Gas and Metals National Corporation (JOGMEC) and Vidyasirimedhi Institute of Science and Technology (VISTEC). The areas of research and technology development are as follows:

- Electromagnetic technology for subsurface monitoring of fluid movement
- Development of chemical for hydrocarbon extraction
- CO₂ Conversion
- Advance coating for erosion protection
- Material science for corrosion protection
- Development of energy storage

Social

PTTEP is committed to carry out its business operations with responsibility to society by focusing in four development areas which include fundamental needs, education, environment, and culture and sports. The Company organized many activities with local communities to ensure that their essential needs are met. Results of the activities were reviewed, evaluated and incorporated into improvement plans for long-term benefits to the stakeholders in areas in which PTTEP operates as well as for the society as a whole. Key activities in the first quarter of 2017 include:

- The Crab Hatchery Learning Center Project – released approximately 40 million crabs and attracted 882 visitors. In addition, the project planned for further expansion to Sathingphra district, Songkhla province.
- The PTTEP Love Sea, Love Beach Project – comprised of 2 activities which are (1) Beach cleaning prototype robot for environment waste reduction which PTTEP, together with Prince of Songkhla University (PSU), are developing the robot prototype which is expected to be complete in May 2017. The prototype will be ready for testing in September 2017. (2) Turtle prevention: agreed on collaboration framework with Air and Coastal Defense Command in order to conserve the turtles.
- The Underwater Learning Site Project – in collaboration with the 'Love Koh Tao' club and PTTEP Scuba Diving Club, prepared plan to install mooring buoys around H.T.M.S. (His Thai Majesty's Ship) Sattakut & H.T.M.S. Prab in May 2017 as well as improve the signage in June 2017. The project also launched an underwater photography competition namely "PTTEP Photo Contest" to promote marine natural resources and environmental conservation via FB: PTTEP Photo Contest. This contest will be opened for submission during 1 November to 15 October 2017.

Safety, Security, Health and Environment

PTTEP has an environmental management system which encompasses a project's entire life cycle, and is a subset of PTTEP's Safety, Security, Health and Environment Management System (SSHE MS). In first quarter of 2017, PTTEP had a Lost Time Injury Frequency (LTIF) score of 0.24 and a Total Recordable Incident Rates (TRIR) score of 0.97. The Company's performance on both safety indicators is superior to that of the average of the members in the International Association of Oil and Gas Producers (IOGP). Moreover, PTTEP aims to become a Low Carbon Footprint organization, and has revised a goal to reduce its greenhouse gas (GHG) emissions by a minimum 25% by the year 2030 versus its 2012 base year figure. In first quarter of 2017, PTTEP reduced its GHG emissions by 7.1% below its 2012 levels. An increase of its greenhouse gas from the fourth quarter of 2016 was primarily due to annual maintenance program in operations and related equipment for GHG reduction project.

Future Business Outlook

Oil Price Outlook

PTTEP expects crude oil prices during Q2/2017 to be range-bound between 50 and 55 USD/barrel with bullish support from the compliance to the agreement on production cuts between OPEC and Non OPEC members which is in effect throughout the first half of 2017. Furthermore, crude prices might adjust upwards due to concern over rising tension in Middle East after the US attacked against the Syrian air base during early April. This is due to the fact that Syria might not be the key crude producing country. However, the unrest might have a negative impact on the distribution of crude to the global market as well as the relationship between the US and Syria's allies e.g. Russia, Iran, and China. However, the market will need to closely monitor the subsequent discussion between OPEC and Non OPEC members in May to consider the renewal of the production cut agreement for the second half of the year. Without the renewal agreement, Dubai crude oil price is expected to fall due to concern on the reoccurrence of global crude over-supply condition.

For 2017, the U.S. Energy Information Administration (EIA) estimated a global crude demand growth of around 1.5 million barrels per day (BPD) or 1.5% increase from the level of 2016, while crude supply growth approximates 1.1 million BPD or 1.2% higher than 2016 due to the potential OPEC members' renewal production cut agreement into the second half of 2017 from the meeting in May, and Russia plans to fully comply with the production cut of 0.3 million BPD by April. EIA also forecasted US crude production to grow from 8.9 million BPD in 2016 to 9.2 million BPD in 2017, which was reflected by the rising numbers of US rig counts since May 2016. The higher demand growth than the supply increase is expected to cause the global crude market to stabilize and oil prices continuing to hike during the second half of 2017.

Thai Economy and Foreign Exchange Outlook

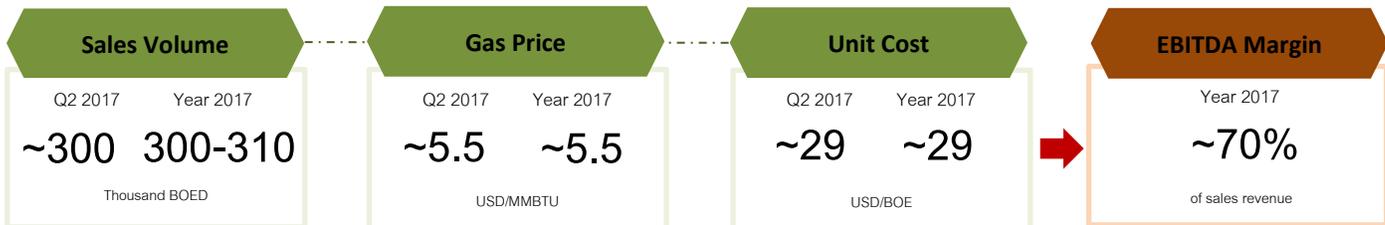
The Bank of Thailand expects the economy to expand 3.4% in 2017, which is better than the previous estimation of 3.2%, mainly driven by the recovery and growth of exports and tourism although uncertainty around international trades especially with the US and China remains. In general, the energy demand is likely to grow, which is in line with the economic growth.

For Foreign Exchange, the Thai Baht against US Dollar exchange rate remains uncertain as the capital markets will remain volatile and require close monitoring from a number of factors; lack of clarity on the US economic policy, uncertainty on the political stability of Europe, pace of the FOMC's interest rate hike, and the uncertainty surrounding the economic direction of major industrial countries such as European countries and China, which have an indirect impact on the foreign exchange rate. The financial performance of PTTEP will be affected by a change in exchange rates mainly in the form of income taxes arising from the difference between the Company's functional currency and the currency in which it files its taxes. The majority of the difference, however, does not impact the Company's cash flows. Furthermore, the increase in interest rate is expected to have minimal impact on the Company's financial performance as approximately 80% of total debt comprises of fixed interest rate debt.

Future Business Outlook

PTTEP's performance outlook for 2017

PTTEP's performance depends on 3 major factors including **Sales volumes**, **Gas price** and **Unit cost**. The Company has revised Year 2017 guidance in order to reflect the latest changes in the operation plans and industry environment with the guidance summary as follows;



Sales volume: Focus on maintaining the production level in Thailand with the estimated sales volume for the second quarter of 2017 to be approximately 300,000 BOED due to planned shutdown activities in the Gulf of Thailand as well as the decreased production from the MTJDA Project as the Malaysian buyer was not able to receive natural gas as planned. Average annual sales volume for 2017 is estimated in the range of 300,000-310,000 BOED depends on the uncertainty surrounding the receiving quantity of natural gas in the Gulf of Thailand which might be affected by the current reduction in global LNG prices. Nonetheless, the Company is considering the mitigation plan to ease such negative impact by adjusting the production plan to increase the production of condensate wells in order to compensate with the missing sales volume and revenue from the lowered gas sales.

Sales price:

- Oil price will fluctuate according to the global crude oil prices
- PTTEP's gas price is linked to a formula with 6-12 months lag time adjustment to the global crude prices. Given the recent recovery in global crude oil prices, it is estimated that average gas price for the second quarter of 2017 and the year 2017 will be approximately 5.5 USD/MMBTU (based on average Dubai price assumption of 52 USD/BBL for 2017).
- Outstanding oil hedged volume as of the end of the first quarter 2017 is approximately 6.4 MMBOE, however, the company consistently monitors the crude oil price movements with the flexibility to adjust the hedging plan as appropriate.

Unit Cost: Estimated unit cost for the second quarter of 2017 and the year 2017 will be approximately 29 USD/BOE which is in line with the Company's latest operation plans and activities.