

Transcription

2 September 2013

Conference-call: 2013 Half-year results

Mr. Jean-François HÉNIN, MPI

Good morning to you all. Thank you. We have just published the results for MPI as you got in the press release. I will now leave the floor to Michel HOCHARD who will comment upon these results. And then, I will take over to tell you about the strategy of the group. Over to you, Michel.

Mr. Michel HOCHARD, MPI

Thank you. Indeed, the comments on MPI will be short in terms of structure, because the key figures are quite synthetic. We have changed our accounting method, and we are no longer using the proportional integration but the equity method. And as MPI has no specific activity excluded its participations, the only figure is the consolidated net result, which came positive at 20 million euros. It corresponds to the pro rata share of the result generated by our participation through SEPLAT.

Likewise, the balance sheet is light, flat, with a cash flow of 170 million at closing, and based on what was communicated in terms of partial sales of our stake in SEPLAT, we now have 245 million euros of cash at the end of August.

In terms of assets, we hold a little more than 100 million euros, corresponding to the value of our stake. Then, other financial assets correspond to the shareholders' loan made by MPI to SEPLAT, plus the treasury. Thus globally, on the shareholder's equity, it is a rather simple picture.

What's more important, which I would like to comment rapidly, is that beyond this, the representation of SEPLAT's activity, the turnover was over 360 million dollars, and almost 46 000 barrels over the period on average. Thus SEPLAT had come to sell more than 3 million barrels at a price of 109 dollars per barrel on average over the period. On the other hand, gas contribution is smaller than in the previous period: only 6 million over the period. The previous exercise was different. Therefore, on the present period, we have a work over programme for the producing wells that have been suspended. And also, there is a number of gas operations that are not operated fully, but all four compressors have been ordered and delivered. Therefore, we should be looking in the few months to come, by the end of the year at a rise in our capacity for gas production. In the first stage, we are looking at 130 million scf/day and there's a whole programme for 2014 for a gas project that should come into play with 250 million scf.

About sales, just a rapid update. We have always had a problem related to Shell as part of the reconciliation of quantities. SEPLAT is responsible for the transfer of these supplies to a pumping

and control station in Rapele. In Rapele, all the production is transferred into the Trans-Forcados Pipe which was up to now operated by Shell and which is now operated by NPDC at the end of the production flow.

SEPLAT with the quality and efficiency of its teams has demonstrated all its power in helping Shell and NPDC to solve some problems and has been entrusted with the operations management of this section of the pipeline, which means that in the long term, we should have a better visibility on what Shell call the “reconciliation factors”, which are of two different kinds. You have an element that is more a matter of measurement because SEPLAT is the only company now that has a system of control and measurement in place that is viable, and measures both the volumes and BSW. And apart from this, no other fields can claim any such systems. In other words it could probably still remain substantial differences. And the second factor could be related to attempts to divert part of the production, steal part of the production and so on. And SEPLAT in its operational approach has demonstrated its capacity to control these aspects on these territories. And as we are currently taking over the operating, the last miles will not be controlled by SEPLAT, but will be within sight, and there is possibility to kind of control these. Therefore, we should be able to generate a significant improvement of the situation around these two factors of reconciliation, which were for SEPLAT, unacceptable. So, an agreement with Shell was signed in February this year which means a regularization of 1.650 million barrels ; up to now 440,000 barrels have not been settled yet because there is a densitometer that is currently being implemented. And therefore, we should be able to control the whole situation from this compromise with Shell by the end of September, probably.

So, we should be back to normal soon. And when I say “normal situation”, I’m here answering questions that have been asked. Normal situation doesn’t mean that we have 0 at the end of each period or quarter, because after this, the programme for entitlement is based on provisional factors and also on loading plans. And you’re never sure that at a closing date, you have the right ship that can take away the right quantity. There is always a little bit of discrepancy at the time of the removal. At the end of June, for SEPLAT, there was effectively a negative situation in terms of transfer of 500 000 barrels.

Sorry about these technical matters. We’re reaching now a point where we have kind of cleared grounds from the past situation. We have observed a decrease of 10% on the quantities as estimated which is not acceptable for SEPLAT. This is why SEPLAT has been working hard to secure the situation. And in parallel with this, SEPLAT is currently implementing a link that would connect Rapele to the Warri refinery, which would mean that we would have also a transfer export under the direct responsibility of SEPLAT which would have direct hand on the transportation. This would thus further mitigate any uncertainties or risk factors related to the transportation of the production, and SEPLAT would directly manage the incidents. And all this would allow us to be more autonomous relating to our commitments and agreements we have had with Shell in terms of export and processing treatment.

I think it was important to make this update. Apart from this, not much to say in terms of financial comments for SEPLAT. The income is in the area of 16 million dollars related to their refinancing and loan structure. They had a line of 275 million dollars for a global capacity of 550 million. Currently, SEPLAT has drawn in addition to this envelope, to be able to fund an acquisition for Pillar which is marginal field close to our current facilities already operated by SEPLAT. This allows

SEPLAT to come up with a potential for 1,800 barrels in addition in terms of production per day, and a gas development project that will help contributing the 250 million of SCF that have been planned.

Net income before tax: 163 million. Taxes: around a hundred of million which means for SEPLAT a net result of 63 million dollars corresponding to our 45% stake at end of June, hence the results of MPI.

The production is close to the 60,000 barrels per day operated. We're trying to look at 65,000 barrels per day for SEPLAT. And what's important is that beyond this, SEPLAT is working to have an exploration programme to take over. That's what has been done by SEPLAT along this line, trying to prepare the ground by the end of the year for an exploration well.

We have reviewed the reserves at the end of April, and we have now a 30% increase versus 2012 for P1 which is quite significant, and a 27% rise for P1+P2.

Maybe, what I'd like to add is that at the end of last year, SEPLAT had been working on a potential purchase of Conoco business. SEPLAT had set a limit in the amount that was proposed. As another leader was preferred to SEPLAT due to these limitations, SEPLAT will therefore continue to work on other potential objectives, but when we say "active", we remain reasonable. That means we are not going to make any excessive proposals to buy and acquire other businesses to boost our results. We won't do anything that is not reasonable from an economic point of view.

MPI has developed over the first half of 2013 a joint investment vehicle with Etablissements Maurel & Prom. I think that M.HENIN will continue to tell you more about this partnership. We have a 19 million dollars stake taken by MPI as part of the activity in Asia which opens the horizon for strategic development there. I will now leave the floor to M.HENIN.

Mr. Jean-François HÉNIN, MPI

Thank you. Indeed, MPI has reshaped its strategy and policy following the impossibility of a merger with SEPLAT. This led us to downsize our stake to 35% and then probably to 25% in SEPLAT so that would allow the sale of SEPLAT without any takeover bid obligation on the remaining of shares. Hence, we have a significant amount of cash position: 245 million euros as of today, with a hundred million more within a few months. Thus we have been looking for areas of development across the world, in particular in association with Etablissements Maurel & Prom that contribute for one third of the funding and to the technical support that MPI still doesn't have because the company has no complete intern technical team.

The first operation is a stake that was taken through Saint-Aubin Energie in a block in Myanmar of 9,600 km². MPI holds something like 25%. The work programme consists of two wells. One is completed and one will be completed by January-February next year for climatic reasons. With each well about 25 million dollars, MPI will be funding up to 25% of this. Results for the first well was not commercially viable, but we're now talking to the operator to know what quantity of the reserves can be allocated to this first discovery.

The second development axis for Saint-Aubin Energie is in Canada where we have two totally different partnerships. One with Deep Oil in Alberta where Saint-Aubin Energie is going to take 50% Deep Well Oil & Gas stake in 12 blocks, plus 20% of the company. It is about heavy oil at low depth in Canada. Steam is injected to be able to circuit the oil out which is quite heavy: 12-14 degrees API. Then we send the production by truck or train. That means that there is no technical risk for this operation. As of today, the real question is how profitable the operation will be, how much steam is needed to produce a barrel and at what price we can sell this barrel due to the transportation difficulties.

In addition to the 12 blocks that we are going to invest in, we have an option on another 50% for 56 neighbouring blocks. They are less attractive because the quantity of oil that can be retrieved per m³ of steam is certainly low.

And the second operation is quite revolutionary for us because we're talking about non-conventional oils. We have set up a partnership with Petrolia in Quebec. The first level of this partnership will end up with a 50/50 partnership between Saint-Aubin and Petrolia in Gaspésie, at the North of New Brunswick. There could be some conventional oil there. To prove this, we will have to dig a 600,000 dollar well by the end of the year. There is also probably quite a lot of unconventional oil.

We're currently discussing with Petrolia and the Quebec government to see how our association can become a trial company for Quebec, a test company to develop unconventional oils. In other words, in application of the precaution principle, they said: we need to be careful. And therefore, they took a financial stake in a project and will, within the Ecole Polytechnique of Montreal, have a scientific team that will be keeping a close eye and monitoring the whole process to see what conclusions can be drawn in terms of the legal framework for Quebec. We are very proud of having been selected to take part in this trial operation which, for Maurel & Prom and MPI, is be very important due to the potential significant amount of unconventional oil there. And even if we consider that we could have a 2% or 3% retrieval rate, it can be amounting to a billion barrels altogether and maybe more. And this should be taking place next year. And beyond exploration well in Gaspésie, unconventional oil operations will continue in 2014. The first well in Alberta should be drilled before the end of 2013.

To give you an idea of the financial commitment that has been made already as part of these operations, you have 15 million dollars in Myanmar, and about 20 million dollars in Canada so far. Outside this, Saint-Aubin Energie was selected to be the operator of blocks in Iraq. What is interesting is that in the decree, we are on an equal footing with Rosneft which has taking advantage of the situation being given the authorisation to operate. We are currently negotiating to reach an agreement by the end of the first quarter of 2014.

We are also considering a couple of other operations, excluding these previously described and we also have an eye on projects for renewable energies which will be or not be implemented next quarter.

Therefore, we have significant cash position. We don't want to do anything with this. We have to be careful, so we allocate between low technical and economic risk projects like Alberta. Even the Gaspésie project does not involve a high financial risk. It may be a failure but cannot be a disaster.



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Iraq on the other hand can be very interesting, if realized, with a very low risk as there is a lot of oil, but there is a political risk and difficulties to negotiate a profitable deal. And regarding Myanmar or on an area where there is a big quantity of gas, we may struggle in producing the commercial quantities that we might have been looking for.

We are now available to answer your questions; I have noticed there was a preliminary question. We are of course still thinking about the possibility of being listed in London, but we have decided to push back this project by several months because we don't want to interfere with SEPLAT's IPO. When this operation will be realized, we'll look at the situation. Over to you for the questions now.

Question & answer

Mr. Mathieu JASMIN, Arkeon Finance

Good morning. I have three questions for my part.

First, you were talking about listing in London. I would like to come back to the listing of SEPLAT. As far as I remember, you had said that the SEPLAT listing could intervene by the end of 2013. Is it still the case?

Second question is about the Iraq project. If it were to materialise, what would be the profile of the permits? Would it be exploration or resumption of existing wells that were discontinued through the years with the various conflicts in Iraq?

Third question: what would be the profile of the renewable energies you're looking at?

Mr. Jean-François HÉNIN, MPI

First, SEPLAT London listing, the project is still planned for the end of autumn.

Mr. Michel HOCHARD, MPI

On this point maybe, I would like to insist on the operation that we have just completed which highlights that there is a before the IPO, a reference valorisation around 1 billion dollars which reflects a significant element which then should facilitate the opening of a new market.

Mr. Jean-François HÉNIN, MPI

It's the sanction of the progress of SEPLAT over the last few months indeed.

About Iraq, there are two types of possibilities. Among those, there would be the resumption of existing wells that had been or not developed, and a little bit of exploration. The problem is to get a contract that is favourable to us, because the resumption of the big fields was done under rather negative conditions for operators that is to say non profitable. So we want to focus on more realistic projects in which we stay focus on Iraqis needs. And our goal is to have a rate of profitability that is satisfactory.

Mr. Mathieu JASMIN, Arkeon Finance

An additional question about Iraq: if the project goes ahead, will it be Saint-Aubin at 100%, or will you be looking for a local player as well?

Mr. Jean-François HÉNIN, MPI

To this day, we are looking for a local plus an international partner together with us.

Mr. Mathieu JASMIN, Arkema Finances

Ok.

Mr. Jean-François HÉNIN, MPI

About renewable energies, we are looking rather at bioenergy. We're currently talking about this with another two partners. And if this was to go ahead, it would be taking place in the next six weeks. And as I said, it would be rather about bio renewable energies from a revolutionary discovery that was made by a French professor. But for the time being, it could be positive or negative. If it turns out well, from a scientific point of view, it's very interesting.

Mr. Mathieu JASMIN, Arkeon Finance

Thank you very much.

Mr. Julien LAURENT, Natixis

Good morning. I would like to know if you could tell us (I haven't calculated this) the amount of gains expected from the sale of your stake. Could you tell us what would be the tax application to this operation?

And the other point is about gaz leverage in Nigeria. We have seen the sales going down substantially because the comparison basis was quite high over the first half of 2012. What are your expectations following the work done for gas, in terms of contribution to the results?

Mr. Michel HOCHARD, MPI

From a tax point of view, this stake has been held for over two years. We have no specific taxation on these capital gains except for some pro rata costs that are part of the taxable basis that are for up to 10%. But no significant or specific tax impact.

Mr. Julien LAURENT, Natixis

And if we have another deal of this type in the next few months, will we be back on the same type of capital gains?

Mr. Michel HOCHARD, MPI

Yes.

Mr. Julien LAURENT, Natixis

Talking about gas ?

Mr. Michel HOCHARD, MPI

I told you that we had a work over and thus a few drills that had been discontinued over the first half of the year. This is currently being addressed. There will be some new drilling in back up that will be activated. So, gas derived from production should be working. What is important is that in the global equipment, it should be phased with the environmental requirements. All the gas facilities are being rehabilitated. All the fields are currently being interconnected. So, any gas produced will be therefore treated. And in this framework, I have mentioned that four compressors have been shipped and commissioned, which is the prerequisite for these gas treatments operations.

Theoretically, we should be back to a potential of 120 million scf as early 2014. Then, when we get progressively the facilities for gas and treatment going live and we finalise our discussions with clients, the objective by the end of 2014, early 2015 would be to ramp up to 250 million scf.

Mr. Julien LAURENT, Natixis

Michel, talking about volumes, could you explain us the average selling price and the income?

Mr. Michel HOCHARD, MPI

The average selling price depends on the current contract which obliges us to have some local supply. So, the current contract is about 1.5 dollar. What is important is precisely to generate some production capacities which will allow us to satisfy the local market and beyond, to have some "available gas" to be sold outside. The prices we're talking about are rather around 3+ dollars than 1/1.5 dollar. This is what we're talking about currently because legal supply obligation and prices evolve. The government has implemented a project that would have allowed this gas price to ramp up incrementally, to be closer to general market prices. The problem for the government is to enact its laws that will have an impact on prices and population. I'd say that overall, we neutralise it to 1.5

dollar in the short-term, and then gradually ramp up to 2.5 while meeting our obligation to supply the local market, and 3 dollars for the part that can be sold outside the local market. For local market, it's 110 million. So, anything above the 110 million will be discharged for an economic environment where tax conditions are more favourable as the royalties are low at present (7%). And the taxation is around 30%. We're not in the same levels of taxation, and therefore, we have more efficiency.

But the global gas project is currently being reviewed and validated. Commercial discussions are also on-going. And all this should be subjected to clarifications from our SEPLAT partners by the end of the year.

Mr. Julien LAURENT, Natixis

A last question about the cash position variations. We see that most of the variation is due to other flows related to financing operations. Is that essentially current accounts repayments?

Mr. Michel HOCHARD, MPI

Last year, SEPLAT had taken part in a bid with Conoco. And as part of these operations, we had to implement a guarantee to demonstrate the financial capacity of the company, and MPI has made a 100 million dollars current account advance. And as SEPLAT was not selected by ConocoPhillips as the leader, this loan was paid back at the beginning of January to MPI.

Mr. Jean-François HÉNIN, MPI

In that case, thank you to all the participants that joined us this morning. We shall be soon talking about other interesting things about MPI. Thank you very much. Good bye.

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