

PTTEP Year-End 2018 Analyst Meeting Edited Transcript

Venue: Synergy Hall, 6th Floor, Energy Complex Building C, Bangkok, Thailand
8 February 2019
15:00 – 16:30 Hours

Speakers: Khun Phongstorn Thavisin
President and Chief Executive Officer

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

Khun Sumrid Sumneing
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 2018 Analyst Meeting, including the announcement of the Company's operating performance for 2018. Before we commence the session, please allow me to invite our, Chief Executive Officer; Khun Phongsthorn Thavisin, on the stage to share PTTEP's strategic directions. Then, I would like to invite Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group who will provide an industry update and to recap recent key highlights, and Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, who will summarize PTTEP's financial results for 2018.

PART 1: Industry Highlights

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



Industry Trends (1/2)

Price volatility driven by macro-economic and political uncertainties

I believe everybody has been closely monitoring the oil price movement and may wonder about the rationale of its volatility that why the projection through to 2020 has been made at the range of 60-70 USD/barrel instead of 80-90 USD/barrel. To explain more on this issue, According to the below graphic on your right, oversupply condition will still somehow exist during 2019-2020, mainly caused by production from the USA. However, if development of key projects is delayed, we may potentially see the oil price rebounding in 2021. In the meantime, the initial forecast that the demand graph will become flat that may be hardly seen in the near future, according to many parties consensus including the EIA. Due to the fact that demand growth is still prevalent, and can potentially reach up to 100 or 110 million barrels over the next 3-4 years.

In short, despite the OPEC's production cut or the outcomes of the US sanction upon Iran and Venezuela, the key determinant of the oil price scenario remains the market demand and supply mechanism, and some other factors; the trade war between the USA and China and the global economic slowdown, which can all have a certain extent of impact on the price. Thus, the oil price is likely to range between 60-70 USD/barrel during these 2years.

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Industry Trends (2/2)

New volumes may cause another supply surplus

Over the past 2 years, we have seen the LNG spot price that was rather low and competitive, compared with the pipe gas at the Gulf of Thailand. Now that the bidding results came out and our gas price is without a doubt competitive compared with LNG price. Upon the completion of the PSC signing, we might as well share the more PTTEP work plan and details of this matter later on. Over the next few years, a lot of producers; Qatar, the USA, Russia, will be accelerating the development of LNG plants, while Australia might be slower due to high cost of operations. In 2024-2025, there is again a possibility of LNG oversupply, thus LNG spot price might possibly become cheaper when the time comes, as opposed to the previous forecast that LNG supply will run short.

The thing that bears the heaviest concern is the impact of the trade war, whether or not it will be as severe as the major global economic depression in 1930, though the IMF forecasted that the situation should not be that bad. Hence, LNG demand will remain high especially in China in 2026-2027. And those who move fast in executing LNG operations are more likely to capture the market opportunities. Going forward, the LNG market is worth keeping an eye on. Instead of experiencing a shortage in supply, we can anticipate oversupply, while supply shortage can be a possibility over the long run. PTTEP is also closely monitoring the LNG business and we also invested in the LNG project; Mozambique. In long term, we are still confident that gas demand will be the key driver of the business.

Now the CEO; Khun Phongsthorn will share with you the strategy and direction of the Company.

PART 2: Strategy and Growth

Khun Phongsthorn Thavisin,
Chief Executive Officer – Strategy and Growth



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PTTEP's New Vision and Strategy for Sustainable Growth

In fact, all of these changes are the result of our effort in transforming the foundation of the organization-wide since the previous year. We have come to the point where we need to identify ways to improve our core business; exploration and production, to be more effective via cost reduction and incorporation of technology in AI and data management. We have also upgraded our IT facilities for staff members and the organization. Furthermore, we also look into new business opportunities as we have been quite

overwhelmed with the trend that oil and gas business will be gradually obsolete, though we are now clearer and have gained more confidence in our existing business. In ensuring the viability of the existing business and the execution of the new business, we have conducted organization transformation initiatives to enable agility and leaner structure, empowering staff members to make decisions. Though this is still the work in progress, the objective is to shorten work processes while maintaining the essence of managing the business. However, all the procedures must be complied as we are under the inspection of the State Audit Office of the Kingdom of Thailand. With all of these mentioned, we have come to the point where we need to review our strategic vision. Initially, our vision was to become the leader in petroleum exploration and production in this region. However, that kind of strategy no longer works in the present day as it is more practical to form collaborations and work together as partners.

As a result, we have restated our vision statement to be 'Energy Partner of Choice'. With this, we not only aim to partner up with oil&gas companies like Total, Chevron or others, but we also seek to be a desirable partner for all stakeholders, including being an employer of choice for staff members, given a fun and effective work environment. Due to the nature of exploration and production business, we do not have fixed establishment or facilities like downstream businesses do, meaning that we can expand the business to all geographic locations. Moreover, we anticipate ourselves to be a desirable choice for communities in which we operate, for the government and for the country.

As an oil&gas company, what we do is basically manage sub-surface activities, and conduct analyses on various aspects. We have also involved a lot of specialists in different fields working on a contract basis. Having said that, we seek to be a desirable choice for those contractors and that mutual benefits can be sought after. We are against taking advantage of our contractors and those we work with.

Likewise, we wish to become a partner of choice for other oil&gas companies for co-investing together in several projects. With that being said, we have set the strategy that will be effective over the next few years to expand and execute a number of activities. I am certain that the management team are ready to make it happen as intended and we can soon expect to see a concrete expansion of PTTEP's investment.

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'Expand' and 'Execute'

For strong foundation and long-term profitable growth

Speaking of expansion, people may wonder why it seems like we are resuming back to our home base. Previously, PTTEP has been executing 40 projects in 11 countries, and now it is time that we focus more in Thailand and nearby areas. This is the practice that many large oil&gas companies are also adopting, especially those US company as they have shifted backed their focus to shale oil and shale gas production

in USA. Likewise, our focus area will be based in such countries as Thailand, Myanmar, Malaysia and even Indonesia, which might take some time to resolve the pending issues.

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Coming Home to Southeast Asia

Strengthen core areas with experiences

We have been very delighted with the fact that we have won the bidding of Erawan and Bongkot, enabling us to be more confident in terms of the security of the reserves and production. With regards to plan for those projects, I believe we will have another session to provide detailed explanation once the PSCs are signed.

We focus more in exploration activity as planned to execute 5 appraisal wells in Myanmar, 3 onshore wells, 1 offshore well and 1 deep-water well. We very much hope that the exploration activities will turn out successfully. Being aware of the opportunity in Myanmar, coupled with the government of Myanmar's announcement of the 'Myanmar Electrification' vision by 2030, the sub-surface and business development teams led by Khun Kanok and Khun Montri jointly discussed on how PTTEP can capitalize opportunities arising from this direction. As a result, we have arrived at a strategic move 'Gas to Power', to maximize benefits from our existing asset; Zawtika, with the production capacity of 300 million standard cubic feet per day (mmscfd), over the area of 4,000 square kilometers. To date, our activities are only based in one single location, whereas there are the western and the northern sides that we see the potential for further development. With that, we have come to consider the possibility of utilizing the Bongkot model for Zawtika. Bongkot's initial capacity was about 300 mmscfd, and has increased to 550 mmscfd for Bongkot North, and Bongkot South was later developed in 2012, increasing to about 300 mmscfd, totaling approximately 900 mmscfd. We would like to see the same scenario for Zawtika, but we need a market for distribution, which coincides with Myanmar Electrification by 2030 policy. We aim to make it happen by installing the pipeline across the Gulf of Martaban, supplying gas from the western side of Yangon to operate the power plants. The by-product out of this endeavor is the benefits on our sub-commercial asset; M3, which is not large enough to develop on its own. Thus, the plan is to lay down the pipeline close to M3 and so M3 can take advantage on this for further development. The project is now in progress, with some common issues that we are also experiencing in Vietnam regarding power business. Normally, the functional currency for the E&P business is US dollars, but when it comes to distribution, the money is collected in Kyat so the power producers expect to pay us for the gas sale by Kyat as well while the certain exchange to US dollars is uncommitted. This is the issue that we aim to resolve, and we have proposed for the plan that sound accepted.

Having said that, many people may wonder if PTTEP is now going to operate the power plant business. I would like to make it clear that our objective is not to be a power producer but rather to generate demand for electricity that will enable us to sell gas. Hence, without a critically necessary reason, we will not be a

power producer by our own. Instead, we would rather let GPSC or Gulf Energy Development operate the business in accordance with the 'Energy Partner of Choice', that we are willing to collaborate with everybody.

Meanwhile, Malaysia is another key focus, as its NOC has also been operating away from the homeland, has now shifted focus to its domestic assets and we can identify room for mutual collaboration. We can see the potential benefits on different aspects if we work together. Fortunately, Khun Kanok used to be in the exploration team at CPOC, so he knows people who very well understand the geological conditions and essential information very well. With that, we have acquired 3 exploration blocks in Sarawak last year, and this year we are going to execute another exploration well. Once acquired, we will normally be monitoring it for about 3-5 years. But now we have changed our way of working; more active and more rapid in terms of decision making. If things do not work out, we will just discard the idea. From Khun Kanok's exposure in the area, the geological structure in the Malaysian peninsula area is exactly the same as that of the Gulf of Thailand, but Malaysia has never actually executed this kind of project before as they think the area is rather fragmented. Nevertheless, Khun Kanok has been successful in convincing them to try out the idea and they have agreed to proceed with further exploration. When it comes to exploration, no matter how we try to get things moving along, it somehow takes time to commercialize. So now we are trying to figure out how to accelerate the exploration and development procedures. Going forward, we can expect to see more activities taking place in these 3 countries.

Back to Thailand, the Department of Mineral Fuels has just launched the new bid round, and so it is our opportunity to take a look at the project in the northeast of Thailand. Despite electricity supply from Laos PDR, the consistency is not that reliable, given the seasonal tidal currents of the Mekong River. This is likely to serve as another vehicle that will strengthen PTTEP's business.

In the meantime, we are going to drill a deep-water exploration well in Myanmar; a collaboration between PTTEP and Total. There are a number of activities that we are now executing collaboratively with Total, and one of which is the aforementioned deep-water well in Myanmar. We are very much hopeful of the outcome of this project, and so we anticipate the Department of Mineral Fuels to launch another bid round for the Andaman Sea area, which was claimed with no significant potential. But with the technological advancement, we can get clearer simulation of geological structure and will be able to make accurate interpretation. In addition, if we are successful with the MD7 in Myanmar, and several projects in these 3 countries, it will form a clearer business landscape and focus for PTTEP.

For Indonesia, there is still a pending lawsuit being charged against us, which we believe we can resume our discussion and identify a mutual way out after the election in April. We will be doing is to involve the third party to conduct the environmental impact survey and propose the solution. The reason why we insist on pursuing opportunities in Indonesia is because there are quite a lot of expiring concessions in there,

with the approximate capacity of almost 1 million barrels over the next few years. In this regard, Chevron has lost the concession capacity of 200,000 barrels to Pertamina, and there are about 500,000 barrels left. Given a mutual relationship between Pertamina and PTTEP, and trust in PTTEP's capability, I think it is possible that we can capture opportunity on the capacity currently owned by Pertamina, just like the relationship we have with Petronas and the respect we have for one another in on the way of working and technical capability. All in all, I believe that this 'coming home' strategy is going to have us fully occupied for a considerable amount of work load.

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Strategic Alliance" in the Middle East

Strengthen core areas with experiences

Our focus area for the Middle East will be the UAE and Oman. Also, it marked the first time in 40 years that UAE opened the bid round. We have been trusted by ENI; the company that has been very well accepted in terms of its exploration and development capabilities that has recently made achievement in just a short period of time.

On the other hand, ADNOC, partly owned by the government of UAE, is responsible for domestic exploration and production activities, while Mubadala Petroleum focuses on overseas projects and assets. With our relationship with Mubadala on the bidding of Erawan, and PTT's longstanding relationship from crude purchase from the UAE, we are very well accepted by them and it coincides with our intention to identify investment opportunities, especially in producing assets.

Meanwhile, the terms and conditions for assets in Oman are quite attractive and we can identify a number of high potential assets that are worth pursuing. Moreover, the governments of the UAE and Oman have recently reviewed the portfolio and have allocated some portions for divestment or for a swapping arrangement. Better yet, these 2 countries are quite in favor of Thailand, and with the aforementioned positive factors and low cost of operations, there should be high potential for further development.

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New Business Opportunities

Expand value chain, create innovation and step towards long-term sustainability

Our approach on LNG is to work in partnership with PTT and to focus on the value chain of the LNG business. However holding upstream share against securing the offtake has offered some hedging advantage in the LNG business, enabling a better balance. I would say that we have formed collaborations with PTT in various aspects.

I once led PTTGC team to Oman, meeting with a team from Oman's Ministry of Petroleum. It can be observed that we no longer execute projects solely our own, but rather engage our team under the umbrella of PTT along with us.

For our direction in 2019, we will increase our production capacity, which may be via M&A, and we are now considering number of potential deals. At the same time, we are seeking new exploration blocks to secure

our reserve. Over a short-term period, once the production base is secured to a certain level, Erawan and Bongkot will be incorporated to fulfil the capacity. If we are able to turn these exploration blocks into producing assets within 3-5 years, we will then be able to consistently secure our production level. Essentially, conducting exploration activities is the core of our business. We have to admit that if we can commercialize the assets from the explorations blocks, the margin will be more attractive than acquiring assets via M&A deals. However, sometimes it is necessary to acquire the assets in order to maintain the level of reserves and production. Now the direction is clear that we are not going to employ the M&A approach for assets that we have to wait for another 3 or 5 years for FID as we have learned from past experiences regarding what works and what does not. Hence, we can expect to see several movements and activities happening during this period.

Another key point regarding the E&P business is that we have been putting a lot of efforts and investment as a preparation for the future as there might be any incidents that cause the business to slow down, and that is why we need to identify new businesses as part of the contingency plan. What we have done is that we have expanded the scope of execution in our value chain; ‘Gas to Power’ project. In the past, we would wait for demand to arise in order to come up with the new business endeavor, but this is a rather new approach as we will not be waiting for the demand or the market to materialize. Instead, we can identify opportunities and create the market. For things that are outside of our area of expertise, we will be looking for partners to jointly execute the project with us.

Meanwhile, another strategic move is the AI and robotics business as there are abundant opportunities in these areas, as we can see from a more extensive use of robots in work settings. Nevertheless, robots in our sense are not just robotic arms used in manufacturing plants, but robots that can actually move around. This has been derived from our effort in using drone to inspect the flare tower, using wireless ROV for subsea inspection and surveillance. We can program these robots to perform different underwater activities using the AI technology to solve problems on-site. With this, we have incorporated a new company; ARV in November 2018. The Company has already commenced its operations and the headquarters is based on Sathorn Road. There will be a grand opening ceremony soon. We believe this new lines of businesses will offer benefits to our own activities and can facilitate other businesses as well. Since Thailand is an agriculture-based economy, we are venturing into non-E&P business, using the robots and AI technology for agricultural purposes. We are now working with Mitr Phol in using the technology to manage the farm and agricultural produce.

Regarding the subsea inspection, we not only use robots for pipeline and structural inspection, but we also intend to design robots that can perform maintenance works on the pipelines. We have collaborated with a company in the town of Kongsberg, Norway. This town has looks like Silicon Valley, meaning that it is the hub of development for robot technology for subsea inspection. Furthermore, we are renting 40 rais of land near VISTEC in Wangchan, where research and development on advanced robotics are being conducted. We will then be working in collaboration with VISTEC, while at the same time helping to

promote the government's EECi. NSTDA has also built facilities in Wangchan area, to join forces in developing the robotics technology, whereby a leader in this initiative is required. And we hope that ARV will be one of the leaders to develop moving robots.

I believe this year we can expect to witness PTTEP's movements and activities to a certain extent, in terms of acquiring exploration blocks, executing exploration activities and uplifting our production capacity. In the end of this year through to the beginning of 2020, there will be transition activities in various aspects. With the incorporation of advanced technology, we believe we can maintain our operating cost at about 30 USD/barrel as guided earlier.

(ARV Video Clip)

PART 3: Financial Performance

Khun Sumrid Sumneing,
Executive Vice President – Finance and Accounting Group



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2018 Key Financial Performance

Robust all round

From what has been mentioned by the CEO regarding our investment in our pipeline, we might be in the position to require a large amount of money. However, our current D/E ratio is about 0.16, which can be leveraged further. Turning to 2018 performance, the sales revenue 2018 has increased resulting in net profit of 1,120 million USD, while sales volume has increased by about 2% mainly from the acquisition of additional 22% stakes in Bongkot which was completed in June 2018, coupled with higher gas nomination from Contract 4 and MTJDA projects.

In the meantime, the Dubai crude price has increased from 53 USD/barrel in 2017 to about 70 USD/barrel in 2018, consequently leading to higher gas and liquid price. Also, the unit cost in 2018 has increased from the acquisition of Bongkot and the recognition of completed assets, resulting in higher DD&A and royalties from higher revenue.

The ending cash balance at the end of 2018 was about 4 billion USD. And we also can maintained very strong EBITDA margin of around 73%.

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Dividends

Demonstrating our dividend commitment to shareholders

As announced, the dividend payment for 2018 was 5 Baht per share. From the history, this is considered the highest rate through the past 6 years. The payment was made for the first half at 1.75 Baht per share and for the second half at 3.25 Baht per share. The payment will be paid on April 11, 2019 and the record date will be in the following week from now. Dividend yield is quite attractive at 4.4%, and the payout rate is 55%.

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Five –Year Plan

Demonstrating our dividend commitment to shareholders

Going forward in the next 5 years, we intend to maintain our sales volume at around 320 KBOED. In this regard, the higher sales volume in 2019 is mainly due to the full year recognition of Bongkot acquisition. From the graph, the sales volume in 2022-2023 seems to be dropped since this set of guidance has not taken into account the scenario of the winning of the bid of Bongkot and Erawan.

In terms of investment, the CAPEX and OPEX will be approximately 16 billion USD. The proportion of OPEX and CAPEX is 6 billion USD and 9 billion USD respectively, which largely resonates with the plan. For the start-up of key projects, we can expect the FID of the Mozambique, Southwest Vietnam and Algeria HBR projects by this year.

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Outlook & Takeaways

Demonstrating our dividend commitment to shareholders

The average sales volume in 2019 is expected to be 318 KBOED, while the average gas price will be maintained at around 6.8 USD/MMBTU. The unit cost will be about 32 USD/barrel and the EBITDA margin will be in the range of 70-75%.

What is worth monitoring is the oil price scenario as it has been quite volatile. We forecasted that the Dubai crude price will be in the range of 55-65 USD/barrel, while Brent crude price will be around 60-70 USD/barrel. With regards to vision and strategy, details have been explained by the CEO and I can sum up by saying that we will be more focused in the areas we are familiar with and have expertise in. Meanwhile, we will enhance the value of existing assets as much as we can. Lastly, we can ensure strong financial readiness for future investment endeavors.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

As sales volume Q1 19 at 309 KBOED, how the rest quarter can contribute to FY 2019 at 318 KBOED?

Answer from PTTEP's management

During Q1 2019, there is an impact from BKT South shutdown now which shall resume operation at mid-February 2019. Therefore, we expect to see higher sales volume after that. Also, we expect to see higher nomination from buyers later in the year.

Question # 2

Which countries are PTTEP's key focus area?

Answer from PTTEP's management

In 2019, PTTEP focuses on coming-home strategy, which our key focus area includes Thailand Myanmar and Malaysia.

Question # 3

What if Chevron would like to divest the Ubon projects?

Answer from PTTEP's management

There are several options for Ubon. However, according to our strategy, PTTEP intends to seek partnership to diversify risks of our portfolio.

Question # 4

How the FID of Mozambique, expected within 1H19, effect reserves addition?

Answer from PTTEP's management

It will add around one year to our R/P ratio

Question # 5

When will the reserves from Bongkot and Erawan field be booked?

Answer from PTTEP's management

Reserve addition can be roughly calculated from the defined DCQ of 700 MMSCFD for Bongkot and 800 MMSCFD for Erawan and committed production period (10 years) in TOR. After PSC signing (expected by the Q1/2019), part of reserves can later be recognized, but the remaining will be recognized in according to the new investment plan.

Question # 6

Any plan to boost up the contribution from existing projects?

Answer from PTTEP's management

Given the contribution from Bongkot and Erawan after concession expiry will be reduced to 1,500 MMSCFD from current level at around 2,100 MMSCFD, there will be a room to maximize volume from existing assets such as Arthit and MTJDA.

Question # 7

Challenges of Gas to Power project in Myanmar for PTTEP comparing to other players? And Timeline?

Answer from PTTEP's management

PTTEP is confident in the strong position due to our existing gas projects in Myanmar. With this reliable source of supply, PTTEP believes that its expansion to power industry is very competitive comparing to other players. We expect to see some clarity by the end of this year.

Question # 8

If the PTTEP fully invest in all growth plan in pipeline, will PTTEP's financial position and D/E ratio be impacted?

Answer from PTTEP's management

Based on our strong operating cash flow, PTTEP can invest according to its current plan (as announced) without further borrowing need. However if there is a further investment required from e.g. M&A, there is quite ample room since the current D/E ratio is only at 0.16 while our policy is at not more than 0.5 times.

Question # 9

How the new 2018 PDP looks like comparing to 2015 PDP?

Answer from PTTEP's management

Comparing new 2018 PDP to the existing PDP, power generation from natural gas is expected to grow to 60% combining supply from Gulf of Thailand and LNG. Due to that increase, coal portion is expected to reduce accordingly.



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.*