

PTTEP Q2 2019 Analyst Meeting

Edited Transcript

Venue: ARV office, Bhiraj Tower at Sathorn Building C
1 August 2019
14:45 – 16:15 Hours

Speakers: Khun Phongstorn Thavisin
President and Chief Executive Officer

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

Kanok Intharawijitr
Executive Vice President, Geosciences, Subsurface, and Exploration 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's Q2 2019 Analyst Meeting, featuring the announcement of the Company's operating performance in the second quarter of 2019. Before we begin, please allow me to invite our Chief Executive Officer; Khun Phongstorn Thavisin, to share PTTEP's strategic directions, followed by Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group, who will be providing an industry update and key highlights of the recent period, Khun Kanok Intharawijitr, Executive Vice President – Geosciences, Subsurface and Exploration Group, who will be sharing PTTEP's success in executing the exploration well of SK410B project, and Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, to summarize PTTEP's quarterly financial performance.

PART 1: Industry Trends

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



Slide
3

Oil Market Outlook

Price volatility driven by uncertainty of global economy

The range of oil price volatility has been narrower than the former threshold of 60-70 USD/barrel. Now it has been clear that the key mechanism that drives the oil price trend is the demand rather than supply, taking into account such factors as Iran's response to the sanction, the OPEC's production cut scheme, the overall global economic condition and the US pipeline debottlenecking. Another determining factor is the UK's new prime minister and the outcome of the Brexit on October 31, 2019, which can potentially lead to the recession if the UK is to leave the EU. With these being said, demand is the key driver of the oil price; if demand growth is slow, the oil price is hardly going to increase.

If the OPEC does not extend the production cut period, the oversupply condition is going to pursue. Now that the OPEC has incorporated Russia, who has been in close contact with Saudi Arabia, the production cut scheme has been extended for another 9 months. Also, countries outside of the OPEC are willing to cooperate on this cause. In the meantime, we can expect another wave of the US shale oil production during 2020-2025. After that, it depends on the amount of available reserve and whether or not the technology can accommodate the production procedures as they require an abundant amount of water in the crude extraction process and the issue concerning water disposal still remains in question.

In the short-term period, the oil price shall be in the range of 60-70 USD/barrel as shown here. The Q3 consensus has reported the Brent price reaching 70 USD/barrel, then we have to wait and see how this scenario is going to turn out in the fourth quarter as the winter season arrives.

Industry Trends

LNG spot price expected to pick up and IMO to have less impact on PTTEP's gas price

For those who have been following the LNG situation, this is quite an excitement as the LNG price changes rather rapidly, given that the LNG spot price in Asia has hit record low of below 4 USD/MMBTU. The LNG market has been quite volatile recently. During 2024-2025, there are two major possibilities; one of which believes that the oversupply will materialize, and the other one advocates that demand will increase to the point where LNG price will increase. In this regard, FGE has taken the point concerning new projects into consideration when making a forecast; the participation of Russia, Arctic LNG-2 and Qatar expansion. In response to this, this situation is unlikely to impact PTTEP as we have secured long-term sales, and we will need to think very carefully prior to investing in any LNG projects as there are many facets of uncertainty.

The graph on the right stems from the question arising from the previous analyst meeting regarding the high-sulfur fuel oil that is associated with gas price. Over the next few years, lower portion of our gas sales will be linked to high-sulfur fuel oil. The portion highlighted in pink is the gas from Murphy, which is not linked to high-sulfur fuel oil. Likewise, the products from Partex, whereby we shall be able to close the deal in the fourth quarter, is also not linked to high-sulfur fuel oil. The volume with no linkage to high-sulfur fuel oil is likely to increase as we are going to have Sabah H, whose production will commence in 2020. On the other hand, the portion highlighted in red represents our gas portion in Thailand and Myanmar that is linked to high-sulfur fuel oil. With the incorporation of the new PSC, the linkage to high-sulfur fuel oil is going to become less likely.

Going forward in the next 5 years, PTTEP's operating performance will be both linked to oil price and high-sulfur fuel oil. However, the trend suggested that the high-sulfur fuel oil spread will become narrower, so analysts and investors are not so worried as the demand for high-sulfur fuel oil over the next few years is still going to be prevalent.

PART 2: Strategy and Growth

Khun Phongsthorn Thavisin,
President and Chief Executive Officer



Slide
6

Growth Strategies

With regards to our strategies, the new mission statement ‘Energy Partner of Choice’ has been made considerably tangible after our 20-year experience in this business. Despite our collaboration with Total, Chevron, Shell and others, we cannot really regard them as our strategic partners. From the point that we have refocused our mission statement from being the ‘leader’ in this business to be the partner who is willing to work with every party to deliver values, we have seen a lot of things materialize as a result of such change, enabling us to truly form alliances with strategic partners. Speaking of which, one of the key partners is Petronas, with whom we have never realized such a close relationship, despite 20 years of working together. As a proof of such claim, the number of our projects in Malaysia has increased from 1 to 11 over the recent years. Thus, we can say that we have successfully formed a strategic partnership with Petronas.

Another company is Mubadala; a subsidiary of ADNOC (Abu Dhabi National Oil Company), who has been working with us in the Erawan project. Meanwhile, we also have 2 exploration blocks in collaboration with ENI. If you have been following the news over the past 3-4 years, ENI has been highly successful with its exploration endeavors. Another key success area is that the time to market of ENI’s products is very short and effective, which is the objective that we share. After having been studying each other for some time, we believe that ENI has been more confident in working with us. For Total, even though we will not be working together upon the concession expiry of Bongkot project, we are still partners in the MD7 project in Myanmar which is a deep water field that we have plan for the exploration drilling in the fourth quarter. Furthermore, we have a chance to mutually develop some projects in the Middle East together with Total, and Oxy on the Partex project in Oman and other countries.

This slide is the summary of our strategic direction from this point forward. As mentioned before, we will be executing the ‘coming home’ strategy, focusing on Thailand, Myanmar and Malaysia, and expanding further to the UAE and Oman. Previously, countries in the Middle East were quite reluctant to open for business opportunities from other countries, but now they share common direction as we do, as seen from higher acceptance of foreign partners. With the strategies featuring ‘expand’ and ‘execute’, recently you

may have seen PTTEP's tangible expansion and movements. Going forward, we will need to ensure that we are able to execute businesses that we acquired in order to achieve the desired outcomes.

Key Milestones and Way Forward to the Sustainable Growth

Even though the expansion by acquisition can potentially earn us the reserves and production capacity, they somehow have to be inevitably paid for, and we need to make sure that they generate a certain amount of return at some point. After having embarked on the acquisition journey for a while, we need to actively ensure that execution is carried out effectively and to seriously strengthen our exploration activities. From this point forward, the expansion activities may be lower, and we will shift our focus to exploration and execution activities to ensure success.

Dating back to December 2018, we have secured G1, G2, and the winning of Bongkot and Erawan. Then in January 2019, we have signed operatorship of 2 offshore exploration blocks in the UAE together with Eni, followed by Siphuhorm project in February and the acquisition of Murphy Oil and the FID of Algeria Hassi Bir Rekaiz in March. In June, there was an acquisition of Partex, the FID of Mozambique which had been on process for quite some time and the gas discovery in SK410B. This coincides with what has been said that as the acquisition activities have been going on for some time, we need to shift our focus to exploration activities and the SK410B project has just resonated with this notion.

At this point, there are 3 major pillars of transition; Erawan, Bongkot, and the complete acquisition of Murphy Oil, potentially increasing our production capacity by around 50,000 barrels of oil equivalent per day. And if the Sabah H project is executed as planned, we can expect another 20,000 barrels of oil equivalent added to our capacity. In this regard, this entity will no longer be regarded as Murphy, but rather PTTEP Malaysia Assets, whereby we are going to speed up our exploration processes, which will be elaborated further by Khun Kanok.

In terms of new businesses, we are quite confident that ARV has a lot of growth potential as our offerings are more unique than the general AI technology. This is because ARV has been specifically developed to support the oil and gas business. The main premise of this venture is located in Wangchan, adjacent to Vidhyasirimedhi Institute of Science and Technology or VISTEC, where our test grounds are located, with a large pool, simulation platforms and a vast runway for drones. We believe we can be the catalyst for growth in the EECl and we can also capture the knowledge base from VISTEC. Furthermore, the National Science and Technology Development Agency or NSTDA will also be working alongside VISTEC, so we are certain that there will be some extent of complementing benefits arising from this cause.

For M&A, if opportunities present themselves and if the business has a positive outlook, we will then pursue M&A opportunities, given our sufficient capacity. Upon the exploration success of the SK410B project, it has earned us confidence to identify reserves for future production, based on our own capacity without having to invest a large sum of money to acquire. So, this is the strategic direction and the way forward for PTTEP, and with our unified dedication, I believe we can successfully deliver success.

Khun Kanok Intharawijitr,
Executive Vice President – Geosciences, Subsurface and Exploration Group



Slide
8

SK410B Project: Exploration Success

Significant resources discovery estimated at 2-4 TCF

This history of SK410B project can be dated back to about 30 years ago in 1987. At the time, JX Nippon acquired the concession to operate the project, and during 1987-1997, several gas fields were discovered here and there in the area. Back in 1994, JX Nippon drilled 2 wells in the area. The image shown is the cross-section illustration of an underground limestone mountain; about 3 kilometers below the surface. At the first drilling attempt, it was such high pressure that called for a vigorous control. At the end of the very same year, the second drilling attempt was exercised next to the first one but none of the gas was detected. With that, a conclusion was drawn that this field did not have anything much to offer, only about 60 BCF worth of gas, hence the concession was relinquished. PTTEP, together with KUFPEC, was willing to pursue this opportunity, given our experience in Rattana well in North eastern part of Thailand. The exploration activities were executed fast, as driven by the CEO. The PSC was acquired since 2016 but the actual drilling did not take place until March 2019 after availability of rig. The exploration period was 3 years, and during that time we conducted the 3D seismic evaluation and interpretation, though the data derived must be retained there.

When we commenced the drilling in March 2019, we were affronted that we could hardly reap any fruits from this well as the previous 2 attempts were unsuccessful. Thus, we interpreted that the lack of success was because the limestone was so dense, so we decided to give it another try, and the outcome was positive and surprising. At about the depth of 3,800 meters, the drilling column got stuck, which I sought an approval from the CEO to side-track the drilling in order to test the flow of the petroleum. Because we assumed that the area was not large, the equipment prepared was rather small, enabling us to extract only 42 million cubic feet per day only. At the current point, none of the liquid was detected, only gas, regarded as 'gas down to'. However, we need to drill further and there is another field about 4,000-5,000 meters down below. For comparison purpose, Zawtika field, at the beginning, the area of the field was approximately 400-500 square meters, with 3 operating platforms and one Central processing platform

and the capacity of 200 million cubic feet per day, starting from 1.2 TCF. Whereas the ‘gas down to’ threshold of SK410B mentioned just now is 2.2 TCF.

From the peak down to that point, the height is about equivalent to the Twin Towers in Kuala Lumpur. Nevertheless, we need to drill another well in order to determine the exact amount of reserves. With this, we expect to produce the first batch of gas during 2022-2024 as the Malaysian market is rather tight at the moment. Now with the acquisition of Murphy Oil, we have assumed another shallow-water well; SK438. With these being said, PTTEP’s growth outlook has become clearer, with Northern Sarawak, Southern Sarawak, Peninsular Malaysia with Block PM415 and PM407, which shares resemblance with Bongkot. These are the 3 major hubs that we are going to monitor over the next 10 years. Moreover, we anticipate to initiate further development of the deep-water projects; Sabah H and Sabah K in 2020. In short, PTTEP has the highest number of exploration blocks in Malaysia, which presents quite a promising future, given the potential of each block.

You can see from the clip that the gas pressure is very high, so it fumes out pretty vigorously. And at night, it blazes in bright blue color, signifying that it is high quality gas.

PART 3: Financial Performance

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



Slide
10

6M 2019 Key Financial Performance

Strong core performance supported by higher volumes and gas price

The half year sales volume has increased to 327 KOED from 298 KOED in the same period last year. This was mainly due to higher volume from Bongkot as a result of the acquisition of additional 22.2% interest offset with the impact of higher shutdown days in the first half of this year. Meanwhile, the weighted average selling price has increased from 45.51 USD/barrel to 47.26 USD/barrel, all in all leading to the net profit of 827 million USD in the 6M2019, increasing by 54% compared to the same period last year.

Turning to the cost side, the unit cost for the first half of this year was pretty unchanged from the previous year, despite the higher exploration expense of around 23 million USD due to well write off and higher general and administration expenses from the recognition of additional compensation from the new Labor Protection Act

For cash flow, the amount of money disposed of was higher than what has been earned by about 500 million USD. However, the EBITDA margin has been maintained at 74%. The performance for 6M2019 has a rather positive outlook, this was not yet including incremental upside from Murphy and Partex.

Slide
11

Financial Position and Dividends

Healthy balance sheet with low gearing

Our assets have slightly decreased from 19,484 million USD to 18,775 million USD. The liabilities also have decreased due to the absence of current liabilities; tax payment, coupled with debt repayment of 418 million USD, with an additional bond issuance of 480 million USD.

The decrease in equity was due to the repayment of hybrid bond of around 500 million USD and the dividend payment for the 2H2018 performance during the first half of the year of approximately 409 million USD offsetting with the net profit of about 827 million USD.

Looking back to the dividend payment history, the dividend paid in the first half of 2019 is considered the highest in the past 5 years at 2.25 Baht, with the payout ratio of 36% and dividend yield of 4%. The record date has been scheduled on August 9, 2019 and the payment date is on August 23, 2019.

With regards to the debt profile, the weighted average cost of debt has dropped to 5.04%, and the average loan life is 8.62 years.

Slide
12

Revised Five-Year Plan

Incorporating growth from recent developments: Murphy and Bidding win of BKT & ERW

Compounding Annual Growth Rate (CAGR) of sales volume for 5-year period until 2023 is expected to grow by 7% to 437 KBOED. This scenario has already taken into account Murphy, G1/61 (Erawan Field) and G2/61 (Bongkot Field), whose production will start in 2022-2023. However, the Murphy will start the contribution to the sales volume in the second half of 2019 and the full contribution of around 60-70 KBOED can be expected in 2021-2022.

This shown investment plan has already been taken into account of the G1/61, G2/61, and Murphy, while the Partex and SK410B have not yet been included. The total amount of CAPEX for five year timeframe is about 12.6 billion USD, which is not included the acquisition amounting of 2,086 million USD. So the total amount of CAPEX is 14 billion USD. Meanwhile, the OPEX is 8,695 million USD. At this point, people may wonder if the fund is sufficient to cover the CAPEX. In response to that, if cash flow from operations amounts to 17 billion USD, and with the CAPEX of 14 billion USD plus some other financing expenses of about 6 billion USD, totaling 20 billion USD, meaning that additional 3 billion USD is required. However,

with the beginning cash of 4 billion USD, we will be left with 1 billion USD, and we can operate with an additional funding of 1 billion USD, allowing us to follow through with this investment plan.

With the loan drawdown of 1 billion USD, the maximum and minimum D/E ratio has been maintained at 0.23x and 0.17x respectively. In conclusion, with this DE ratio we still have debt headroom for additional funding of around 3-4 billion USD.

Outlook & Takeaways

Volumes boost with priorities in business transition for full value realization

The average sales volume in Q3/19 has been projected to be 356 KBOED, increasing from Q2/19 due to the Murphy acquisition, while the full-year is forecasted around 345 KBOED. Meanwhile, the average gas price is likely to be about the same at 6.8 USD/MMBTU. On the other hand, the unit cost may appear to be higher in the second half of the year because the OPEX spending are typically lower in the first half, coupled with the fact that some exploration write-off expenses will be incurred later in the year, leading to slightly higher unit cost. Last but not least, the EBITDA margin still maintained between 70-75%.

We will now open the floor for questions.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

When do expect to drill additional appraisal well in SK410B?

Answer from PTTEP's management

We expect to drill in 2020 to affirm the petroleum potential of this field. However, based on the result of the first well, we expect it to be at least 2 TCF

Question # 2

What is the potential of gas market from SK410B to Bintulu?

Answer from PTTEP's management

The capacity of LNG complex in Bintulu is sufficient for the current and upcoming gas contracts.

Question # 3

Could you compare discovery of SK410B and with that of M3

Answer from PTTEP's management

SK410B's discovery is quite significant with the size of multi TCF and market readiness. For M3, the resources are in a smaller size, and we have plan to monetize it through 'Gas to Power' project as Myanmar's market is in need of electricity.

Question # 4

What is PTTEP's view on profitability as the company projected on higher production and reserves?

Answer from PTTEP's management

We expect our profitability to be in line with higher volume. For the acquisition of Murphy, we expect the cost profile to be roughly at the same level as PTTEP's current unit cost. For G1 and G2, despite the lower selling price, the unit cost should be lower as well from low DD&A (no heavy upfront CAPEX).

Question # 5

When is the new Bidding Round in Thailand?

Answer from PTTEP's management

The timeline depends on the government's decision. However, we are ready to participate if the bidding is announced.

Question # 6

Why PTTEP records APICO's interest (72.8%) as an investment in JV (one line and receive dividend), instead of consolidating line by line.

Answer from PTTEP's management

According to accounting standard, it is considered as an investment in JV because in the details of the Shareholder agreement, we do not share asset and liabilities in the acquired company.

Question # 7

What is your view on major E&P companies that withdraw investment from deepwater in North Sea, while PTTEP has been acquiring more E&P assets?

Answer from PTTEP's management

Most E&P companies are adjusting their portfolio by selling some assets and investing in focused areas, which they have expertise, including PTTEP that we now focus in our Coming home strategy.



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.