PTTEP Q2/2018 Analyst Meeting

Edited Transcript

Venue: Synergy Hall 6th Floor, Energy Complex Building C, Bangkok, Thailand
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13:00 – 15:00 Hours

Speakers: Khun Somporn Vongvuthipornchai
Chief Executive Officer

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

Khun Pannalin Mahawongtikul
Executive Vice President, Finance and Accounting Group

The slides of the presentation, as referenced throughout the transcript, can be found here.

Introduction

Moderator

Welcome to PTTEP Q2/2018 Analyst Meeting, featuring the announcement of the Company's operating performance of the second quarter of 2018. Before we commence the session, please allow me to introduce the Company's executives who will be giving reports on the Company's operating performance today.

Khun Somporn Vongvuthipornchai, Chief Executive Officer

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

Khun Pannalin Mahawongtikul, Executive Vice President - Finance and Accounting Group

And without further ado, please join me in welcoming Khun Somporn to begin the presentation.

PART 1: Safety Performance

Khun Somporn Vongvuthipornchai
Chief Executive Officer

Slide 3

Priority on Safety and Sustainability

Delivered high safety performance and ensure our commitment to all stakeholders

As usual, I will begin with the key priority aspects of PTTEP's operations; safety and sustainability. In the first half of 2018, there were 2 incidents, and the Company handled the cases seriously, as seen from our corrective actions in bringing together the area supervisors and the contractors to discuss the root causes of the incidents and the mitigation plan in order to ensure that the right actions are being taken and that no such incident will occur again. From that point onwards, there has been no further case so far, and the current lost time injury incident frequency (LTIF) is 0.12 time per one million man hours, and we are always anticipating to keep the LTIF statistics in a better level. Comparing with the oil and gas industry average, our statistics is considered to be in the top quartile.

Meanwhile, there are key points to highlight with regards to sustainability in this quarter. We have been granted an extension of membership of the Private Sector Collective Action Coalition Against Corruption Council (CAC) in May 2018. Also, we have participated in several corporate social responsibility (CSR) competitions and won awards from Indonesia, the Philippines and Hong Kong. Currently, one of our successful CSR programs in Thailand is the collaboration between PTTEP and communities to expand the crab hatchery to prolong life spans of crabs in the sea. The project has been rolled out in several communities in the southern Thailand and it has been quite successful. There is also a medical aid project to facilitate those with limited access to healthcare in Indonesia. All in all, these are the things that PTTEP has been placing great emphasis on all along as we are fully aware of the fact that, to operate the business over the long-run, ensuring sustainability is highly crucial.

PART 2: Industry Highlights

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

Slide 5

Oil Prices

Oil prices stabilize in 65-75$/BBL range as market rebalances

This session features a discussion on the oil price scenarios, including oil demand and supply. The outlook is now quite clear that the oil prices has risen from 2017, whereby in Q2/2018 it has ranged between 70-80 USD/barrel, with the Brent price peaking at 79.8 USD/barrel. There are key drivers determining the global oil price. The first of which was demand and supply, which have begun to rebalance, though the risk of oversupply still exists in the short-term period. The second driver of oil price was the geopolitical factors, whereby the sanction in Iran can potentially affect global supply in Q4 2018, as well as political uncertainty in Venezuela and some other places. The third key factor was the US-China trade war. Taking these 3 factors into consideration, the oil price is likely to remain in the range of 65-75 USD/barrel for the rest of 2018 through to 2019. Essentially, the key fundamental driver is still demand and supply mechanism. On supply side, whether the OPEC is able to maintain the production cut with compliance from its members, or whether the compliance would be relaxed causing a higher production from the other OPEC country to flood into the supply shortage of Iran from sanction and loosen the demand and supply balance, will have impact on the oil price. Without these, it is less likely to see the fluctuation in oil prices until the end of the year.

Slide 6

Oil Market Outlook

Market balancing continues in 2019

The demand was seemingly higher than supply by about 1 million barrels. The key point to watch out for was the demand-supply balance, especially from such major producers as Saudi Arabia and Russia which can impact global supply. If the demand and supply can be maintained at this level as shown, it is still possible for oil price to sustain at the current level.

For the graph below, the area below zero illustrates the supply that is going to be disrupted or lowered comparing to June 2018, meaning that supply from Iran will be lowered and subsequently drag down the global supply, while we also have to look at the additional supply capacity that Saudi Arabia and Russia could contribute.

Furthermore, countries that used to be major producers, such as Libya and Venezuela, are now experiencing issues to lower supply volume. For instance, Libya has had 2 main export terminals shut-in and 2 badly damaged storage tanks, while Venezuela is having issues on maintenance outage and the sanction imposed by the US.

Slide 7

Global LNG Market Update

In need of new LNG supply from 2022/2023 onwards

There have been varying opinions regarding the LNG market. Some say that the LNG market is still the buyers' market, with the option to buy LNG at spot price. Some people suggested that LNG supply will start to run short in 2022-2023 onwards given increasingly higher demand in the global market, while over 60% of LNG demand will be borne in Asia; China and India, though Japan has had lower LNG utilization. It has been forecasted that LNG demand in the overall Asian market, especially China and India, in 2030-2040 will be highly growing.

With this, countries with high LNG resources potential will be contributing supply to the market to satisfy those increasing demand. Major contributors to filling in the demand gap would possibly be the US, Canada, Qatar and Mozambique. If there are delays in project planning or construction, the supply will certainly be tightened. In summary, without the additional volume from new projects, supply shortage is likely to materialize in 2023 onwards, so we have to pay close attention to the construction timeline of new projects. It has been predicted that the LNG market will have become the sellers' market with considerable demand gap from 2025 onwards.

Slide 8

Energy Transition & Challenges

Oil & Gas companies are heading towards Low Carbon/Renewables

To share the topic that has been at the center of discussion for some time; the shift from fossil fuel to other forms of energy. Many houses and institutions have made predictions on the source of energy for the future that in 2040, fossil fuel will still remain the primary source of energy, despite the drop from 81% share in 2016 to 75% share. However, we can see quite a significant drop in the use of coal, with a more active role of renewable energy sources. Also, nuclear power seems to have a rather slow growth. All in all, fossil fuel will still be major energy sources, especially gas, which is in line with PTTEP's strategy in gas business development, as seen from our investment strategy and participation in the gas value chain.

With the incorporation of renewable energy sources in the near future, a lot of US and European companies have begun to pay attention to improve their working approaches, way of thinking, and new innovation. PTTEP also has started to execute activities to drive this major transformation, as seen from several efficiency enhancement programs and new business opportunity identification. European corporation seems to take the lead in shifting from fossil fuel to renewable energy.

PART 3: Financial Performance

Khun Pannalin Mahawongtikul

Executive Vice President, Finance and Accounting Group

Slide 10

Sales Volume and Unit Cost

Higher sales volume offset with rising unit cost driven by DDA

Sales volume in 6M 2018 has increased by 1.8%, compared to the same period of 2017, mainly due to higher gas nomination from Contract 4 and MTJDA projects. Meanwhile, the average selling price has improved quite significantly by 20% from 38.04 USD/BOE in 6M 2017 to 45.51 USD/BOE in 6M 2018, supported by the higher global oil price. This subsequently contributed positively to the Company's performance for the first half of 2018.

Moving on to the cost side, the unit cost has increased by about 2 USD/BOE from 28.29 USD/BOE in 6M 2017 to 30.37 USD/BOE in 6M 2018, which was relatively small when comparing with the increase in average selling price. Looking at the unit cost breakdown, the DD&A has increased by about 1 USD/BOE, mainly from the recognition of completed asset in S1 and Contract 4 projects. The finance cost has remained pretty much unchanged, while the royalties have increased in pursuit of higher product price. The G&A expense has picked up in 6M 2018, but it is noteworthy that the cost of G&A was quite low in 6M 2017, while the figure of 2.11 USD/BOE in 6M 2018 was considered as a normal level. The exploration expense has dropped slightly compared to that of 6M 2017. There has been a marginal increase in the operating expense, mainly from the maintenance of the Bongkot Project and higher sales volume of the Montara field which its operating cost was relatively high. The volume mix between gas and oil was 71% and 29%, respectively.

Slide 11

Cash Flow Performance

Maintained healthy operating cash flow

Over the first half of 2018, we have generated cash flow from operations amounting to 1.2 billion USD, whereby the recurring net income in 6M 2018 stood at 640 million USD, increasing by 69% from 378 million USD in 6M 2017. However, the Company's performance was impacted by the Thai Baht depreciation of about 0.50 Baht/USD during 6M 2018, resulting in lower net income by about 50 million USD. As explained before, every 1 Baht/USD depreciation will result in the decrease in net income by about 90-100 million USD. Moreover, the Company also incurred loss on oil price hedging of 50 million USD in 6M 2018, but most of the impacts are non-cash items. This ultimately resulted in the net income of 536 million USD in 6M 2018.

With regards to sources and use of fund, the spending have been quite high in 6M 2018. The area in grey was the CAPEX spending, while the blue area depicted the partial payment for the acquisition of additional 22.2222% stake in the Bongkot project from Shell, which has already been successfully completed on June 21, 2018. There was a dividend payment for the operating performance of the second half of 2017 amounting to 347 million USD, together with debt prepayment, debt repayment and finance cost, eventually resulting in the uses of fund totaling 2.3 billion USD. Even though the use of fund in 6M 2018 exceeded the source of fund of 1.2 billion USD, the ending cash on hand still remained high at 3.4 billion USD with healthy EBITDA margin at 74%.

Slide 12

Financial Position

Robust financial position with low gearing ratio

At the end of 6M 2018, our assets have slightly picked up as well as our equity that has also increased from net profit less by dividend. The interest-bearing debt portion in green color has decreased from the debt payment. All in all, assets in 6M 2018 was at 19.4 billion USD. Our debt profile is 100% in USD and 100% fixed rated as we have prepaid the floating-rate debt.

Slide 13

Dividends

Demonstrating our dividend commitment to shareholders

The dividend proposal for the first half of 2018 has already been announced, with the payout rate of 1.75 Baht per share which is to be paid on August 24, 2018, equivalent to the payout ratio of 39%, higher than our policy of no less than 30%.

Slide 14

Financial Outlook

Expect strong core operational performance and margin

For the financial guidance, the average sales volume for Q3/2018 is estimated to be around 308 KBOED, while we expect FY2018 sales volume at around 310 KBOED which had taken into account the contribution from additional 22.2222% stake in the Bongkot project which will yield additional sales volume of 16-17 KBOED on the full-year basis, offsetting with lower production from S1 project and the impact of Montara divestment.

With the FY2018 Dubai oil price assumption of 70 USD/barrel, the average gas prices in Q3/2018 and FY2018 is expected to be 6.5 USD/MMBTU, which are supported by the higher oil price. Meanwhile, the unit cost for the whole year 2018 is likely to be around 30-31 USD/BOE, and the EBITDA margin is likely to remain around 70-75%, confirming our attempt to maintain the unit cost and healthy EBITDA as planned, while our selling price is pretty much dependent on the global oil prices.

PART 4: Strategy Update

Khun Somporn Vongvuthipornchai
Chief Executive *Officer*

Slide 16

REFOCUS through Series of Portfolio Rationalization

Strengthen Focus areas, Reposition Non-core

From the strategic perspective, we continuously operates under 3R strategy; RESET (manage cost to ensure competitive operations), REFOCUS (restructure the investment portfolio in areas of expertise and consideration of divestment decisions) and RENEW.

In terms of REFOCUS over the past 6 months, we have completed 22.22% stake acquisition of the Bongkot project from Shell. We also aim at expanding our exploration portfolio, as seen from the acquisition of exploration blocks in 2 locations; a joint bidding effort in 2 deepwater operations in Mexico together with prudent operators with a track record experience where we are now conducting studies, and 2 blocks in Malaysia with lower operational risks compared to that in Mexico. For the 2 exploration blocks in Malaysia, this is undoubtedly high petroleum potential location with a major gas market with established infrastructure in place. With this, we will have 3 exploration blocks altogether in Malaysia.

Meanwhile, we have divested the Montara oil field in Australia and have already notified to the Stock Exchange of Thailand. The rationale behind was that the field's operating cost is rather high and it is a mature field. However, we still operate some other fields in Australia, including Cash Maple gas field with the potential resources around 3-4 TCF that we need to identify ways to monetize them.

Going forward, taken into account the acquisition of Bongkot and the divestment of Montara, the estimated FY2018 sales volume will be around 310 KBOED, with the unit cost in range of 30-31 USD/BOE.

Slide 17

Fast-Tracking FID Key Pre-Development Projects

Stronger path towards Mozambique LNG FID by 1H2019

This slide highlights our attempt to ensure successful execution of key pre-development projects. For Mozambique project, the legal and contractual framework approval from the government of Mozambique has been completed. The resettlement plan and site preparation are now underway, where an agreement with the government was made regarding port concessions prior to site preparation activities. The operator has now accessed the area to conduct preparation works to minimize the lead time on activities that might not be capital-intensive but time-consuming. Also, the project has secured key terms and conditions for Head of Agreements (HOAs) exceeding the target for Final Investment Decision (FID), and is now aiming at converting HOAs into LNG Sales and Purchase Agreement (SPA). In this regard, the publicly announced deals of SPA and HOAs are shown in the slide; EDF, Tohoku, PTT and Tokyo Gas & Centrica, while there are also some HOAs that have not been publicly announced. Last but not least, the onshore contractor (for LNG plant construction) has already been selected and we are now trying to finalize offshore contractor selection for drilling, platform and pipeline construction. Along with these, we have been working with commercial banks regarding project financing and we target the sanction of this project during the first half of 2019.

Other key pre-FID projects are Southwest Vietnam project which PetroVietnam is the operator, Ubon field (Contract 4), where we are preparing the development plan with Chevron who is the operator, and Algeria HBR, where the development plan has already been approved, and we are now in the stage of finalizing agreements with partners to push the project towards FID.

Slide 18

Continue to Persue Other Growth Strategies

Production and Reserve accretion remains to priority

This slide discusses on other growth strategies. The bidding of expiring concessions in the Gulf of Thailand is one of the Company's top priorities. The bidding process has already started with the ongoing dataroom and bid preparation process. The bid submission is scheduled on September 25, 2018. Potential bidders, who qualifies as an operator, with access to the dataroom for the G1/61 (Erawan) are PTTEP, Chevron, Mubadala Petroleum and Total, while that of 62/61 (Bongkot) are PTTEP, Chevron and Mubadala Petroleum. Currently, we are in the stage of finalizing the partner selection to manage project risk as a nature of E&P business. Given the regulations stated that the project will not be allowed to change ownership stake for a period of at least 1 year after 1st production from the new Product Sharing Contract (PSC), we would like to arrive at a conclusion with our potential partner regarding terms and conditions prior to bid submission.

Talking about M&A, we are actively seeking opportunities mainly in Southeast Asia and Middle East. We are also working on the exploration portfolio expansion into high potential areas, and if we expand into unfamiliar areas, the strategy is to form a joint venture with partners who have deep expertise and familiarity in the areas.

And that is the recap of PTTEP's strategic direction updates. We will now open the floor for questions.

PART 5: QUESTIONS & ANSWERS (Q&A)

Question # 1

Could you please share the bidding strategy for expiring concessions in the GoT?

Answer from PTTEP's management

For Bongkot, it is clear that we will bid with our current partner being TOTAL. For Erawan, we are in the process of finalizing the partner selection, certain threshold of shareholding is required if we were to be the operator.

Question # 2

According to the news that PTTEP will expand the investment to Power Plant business in Myanmar, please discuss on PTTEP's supply capacity and structure of Power Purchase Agreement (PPA) in Myanmar?

Answer from PTTEP's management

We are now studying an opportunity to invest in gas-to-power in Myanmar. We believe that the current operated producing asset "Zawtika" and other marginal fields in Myanmar will be able to supply gas to domestic power plants. Also, the Myanmar PPA normally requires the certain electricity charge where the operator must manage their operation in order to satisfy its return.

Question # 3

Is there any possibility of impairment charge on Mozambique LNG?

Answer from PTTEP's management

The recent impairment test did not show any significant risk of impairment given the larger resources and the project's startup timeline remains the same at the year 2023.

Question # 4

Way forward for the Mariana Oil Sand Project?

Answer from PTTEP's management

The project is under the consideration of divestment plan as part of "Portfolio Rationalization" to reposition non-core assets.

Question # 5

What would be the impact on oil price from current demand-supply tight i.e. Iran sanctioned by the US?

Answer from PTTEP's management

Crude oil price fluctuation will depend on the balance between the reduction in Iran export as a result of US sanctions versus the ramping up capacity from the US (+500-600KBPD), Russia and Saudi Arabia (+200KBPD).

Question # 6

What is your view on the global oil demand growth in long-term?

Answer from PTTEP's management

The market expects that global oil demand will reach 110 MMBPD in 2040 from current level of 86 MMBPD, however, we do not expect oil price to significantly rise above 100 $/BBL, instead it will stabilize at around 80$/BBL range given the energy consumption being shifted to clean energy sources e.g. gas and renewable energy.

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.*