

PTTEP Q2 2019 Analyst Meeting

Edited Transcript

Venue: PTTEP Head Office, Auditorium, 6th Floor, Energy Complex building A
6 November 2019
13:30 – 15:30 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's Q3 2019 Analyst Meeting, featuring the announcement of the Company's operating performance in the third quarter of 2019. The presentation will take about 1 hour and will be followed by the Q&A session. Before we begin, please allow me to invite our Chief Executive Officer; Khun Phongsthorn Thavisin, to share PTTEP's quarterly highlights and strategic directions, followed by Khun Montri Rawanchaikul, Executive Vice President – Strategy and Business Development Group, to provide an industry update and key highlights of the recent period, and Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, to summarize PTTEP's financial performance in the third quarter of 2019.

Khun Phongsthorn Thavisin, Chief Executive Officer – Strategy and Growth

With regards to the strategic directions, I believe we are in the process of delivering what we have committed earlier on. However, the volatility and uncertainty are also widely recognized by other industries, not just the oil and gas industry, including the impact from external factors. Speaking of which, Khun Montri will be providing an update and our viewpoint of the situation at hands.

PART 1: Industry Trends

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

Industry Trends : Oil Market Outlook

Price volatility driven by uncertainty of global economy

The oil price has been fluctuating as it has been earlier. Nevertheless, due to PTTEP's consistent effort in cost reduction, we have been able to sustain the business through challenging times, given the crude oil price at the level of 60 USD/barrel. In determining the oil price trend, relevant factors are, trade war, Brexit, and the most significant factor in our point of view is the production volume from the USA. There are two major notions regarding this matter. One believes that the volume will be increasing over the next few years before beginning to decline, while the other believes that the volume increase will last more than 2 years. This is the matter that we still need to keep monitoring in the long run. However, our guideline suggests a narrower oil price range of 60-70 USD/barrel in 2020, with reference to the Oil & Money conference held last month in the UK, which brought about the



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consensus among trading companies that the crude oil price range will be around 50–60 USD/barrel. We think that the oil price going below 50 USD/barrel is less likely, due to the existence of the OPEC’s production cut scheme, volume control and the demand and supply mechanism in the market, thus the oil price range of 60–70 USD/barrel seems a more possible scenario.

One of the key factors, which we have to keep monitoring through end of 2019 and early 2020, is the Brexit. Meanwhile, global oil demand is likely to pick up in 2020, though not too vigorously, and we believe that the oil price scenario is not going to differ much from the current situation. All in all, what we have been doing all along since 2014 has greatly contributed to the Company’s business viability.

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Industry Trends: IMO 2020 implications

Minor impact to PTTEP’s performance

Many people asked about the impact on gas price upon the IMO’s announcement that prohibits the use of high-sulfur fuel oil (HSFO) in marine transportation from 2020 onwards. The concern came from the fact that PTTEP’s gas sold in this region is somewhat tied to HSFO price, and whether or not the impact is going to be material. In response to this, we have made hedging arrangements of the spreads between HSFO and dated Brent or Dubai crude as a risk management measure to partially alleviate the impact.

To elaborate, the graph on the upper right is a good demonstration of the scenario. It suggests that PTTEP’s major product is gas, however, the impact caused by the HFSSO price is only about one-third, because the gas price formula is not solely tied to HFSSO price, but also foreign exchange, inflation and some other factors. Moreover, the hedging and the time lapse benefit on fuel oil price also serve as potential buffers. As a result, our exposure to HSFO is actually quite low.

The graph on the lower right provides an even clearer picture. With regards to the production sharing contract (PSC) in the Gulf of Thailand that is going to take effect in 2022–2023, HFSSO price will be replaced by Dubai crude price for gas sale agreement, hence the impact will be even less.

PART 2: Strategy and Growth

Khun Phongsthorn Thavisin,
President and Chief Executive Officer



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PTTEP’s priorities

The strategic direction and growth drivers are still in line with what we have discussed at the beginning of the year. We have been actively venturing into the expansion activities over the recent period with 3 major acquisitions that we believe they are going to

contribute considerable growth for PTTEP. From this point forward, our focus and effort shall be geared towards the execution activities with the business transition of newly acquired assets and producing tangible results.

The acquisition of Murphy Oil aligns with our strategy and our exploration success at Lang Labah have further expanded our portfolio in Malaysia. The integration with Murphy's operations in Malaysia has been going well, with a smooth operational transition. With this acquisition, we have also acquired talented and experienced personnel who will also help us operate the existing exploration blocks in Malaysia. We also plan to have the Malaysian team support the deep-water exploration project in Myanmar as well, as they are well-verse in the deep-water operations. By the middle of 2020, the operations in Malaysia should have been well settled.

Another key element requiring our full attention is the transition of Erawan and Bongkot projects. Since we are the Operator of Bongkot or G2/61, there should be no any particular issues and we shall be able to deliver our commitment as planned. On the other hand, operating G1/61 or Erawan with Chevron can be a little more challenging. We have already conducted site survey for production platform installation plan as well as the EIA baseline. Currently the negotiations on different matters are in progress to facilitate smooth transition. For the newly acquired assets from Partex, the transaction was completed on November 4, 2019. The assets are in 5 countries with addition to our sales volume of 16,000 barrels per day.

Despite the low oil price environment this year, it is fortunate that the gas price can still maintain much due to the lag time recognition in price adjustments. Therefore, the overall performance outlook for this year shall be positive. In 2020, we expect the full-year volume recognition from Murphy and Partex, so all in all, the production will increase quite considerably next year.

Going back to Malaysia, we are now in the process of carrying out development activities for Block H, which should be up and running by the second half of 2020 according to the plan. We are now in the transition phase to minimize any abrupt changes. As we operate, we have begun to identify the potential and room for improvement, to which we can add value in the future, given the fact that the seller had not been putting a lot of focus on additional investment prior to the acquisition transaction.

Looking forward, the transitional activities will still be on-going. Another key area of focus will be on exploration activities. At this stage, the exploration / operating cost is not overly high, especially in Malaysia and Myanmar. We would like to see the whole picture and to identify clear goals on our exploration areas and where is the potential to develop. Speaking of which, the focus will be on Malaysia as it is where the market already exists. We are not conducting exploration activities just for the sake of exploring, but we are very clear in our mind of the market we would pursue. For Lang Lebah, we are about to enter into the Pre-Feed stage, which is considered very advanced, provided that the discovery was just a few months

ago. In the beginning of next year, we should be able to commence the drilling of MD7 in Myanmar after a slight delay from the end of this year.

For the asset in the Middle East, after the acquisition of Partex, we would continue to look for opportunities on exploration fields in the UAE and Oman as we believe that these two countries have great potential. Our mother company; PTT, also purchases oil from these two countries so there is a certain extent of business relationship there. The CEO of ADNOC in UAE have the target to increase production from 3.8 million barrels to 5 million barrels by 2030. We are willing to support this target if there is any opportunity.

For PTTEP, we can anticipate growth for over the next 5 years. For the future M&A, if there are any opportunities arising, we will certainly be taking them into consideration under acceptable economics value.

PART 3: Financial Performance

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



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9M 2019 Key Financial Performance

Strong core performance supported by higher volume and gas price

In comparing the financial performance of the 9-month period in 2019 and 2018, there are some of the key events taking place in 2018, for instance, the acquisition of additional 22.22% interest in Bongkot completed in mid-2018, which have implication on the overall performance; and the divestment of Montara field in Australia in September 2018, leading to lower volume but at the same time lower expenses. In 2019, key happenings are including Bongkot shutdown. There was a 69-day shutdown of Bongkot as of 9M19, whereas the shutdown at 9M18 was 42 days, providing an explanation for a potential drop in performance, however there are some other factors that have contributed to the improvement of operating performance. In July 2019, we have acquired Murphy Oil, leading to higher volume contribution since July onward. Also, there was a recognition of an additional compensation of not less than the 400 day's pay for the employee after serving 20 years in accordance with the new Labour Protection Act that impact on our financial statement of approximately 20 million USD, which has been allocated both as the CAPEX and OPEX. For the amendments on the related tax laws that allow tax filing to be in the company's functional currency which is USD. We can partially execute this in 2019 and have reversal of income tax benefits balance relating to

functional currency amounting to 60 million USD on the financial statement. However, we expected other companies in the PTTEP's group will receive further approval from Revenue Department next year.

Moreover, there was quite a significant exploration expense mainly due to exploration wells write-off over the past 9 months, outpacing 2018 by 63 million USD, which has already been incorporated in the 9-month financial statement.

Another key highlight is foreign exchange. Thai Baht has appreciated by 1.86 Baht/USD over the past 9 months, while depreciating by 0.27 Baht/USD from 9M18.

The sales volume has increased by 12% from 300 KBOED in 9M18 to 336 KBOED in 9M19, mainly from the additional volume from Bongkot, despite higher shutdown and additional volume from the acquisition of Murphy's business in Malaysia.

The average Dubai crude price was decreased to 64.02 USD/barrel in 9M19 from 70.10 USD/barrel in 9M18, leading to lower liquid price. However, the gas price has increased YoY from 6.24 USD/MMBTU in 9M18 to 6.91 USD/MMBTU in 9M19, all in all slightly increasing the weighted average selling price from 46.25 USD/barrel to 46.83 USD/barrel.

In terms of unit cost, the unit cost has slightly increased from the recognition of additional compensation from the new Labor Protection Act and wells written-off. On the other hand, non-cash cost has slightly dropped, mainly from the divestment of Montara field.

At 9M19, cash flow from operations stood at approximately 2.4 billion USD, while expenses incurred from business acquisitions account for about 2 billion USD. With the beginning cash of about 4 billion USD, the ending cash is equivalent to about 2 billion USD.

Financial Position and Guidance

With regards to the capital structure, the D/E ratio has increased slightly from 0.16x in 2018 to 0.18x at 9M19, due to new bond issuance. In the meantime, assets have slightly increased from 19.4 billion USD to 19.8 billion USD, while the debt profile is still 100% in USD. As a result, our weighted average cost of debt has decreased from 5.32% to 5.04%.

In terms of the guidance for 2019, sales volume has been projected to be about 345 KBOED, from operational resumption of Bongkot in the fourth quarter, coupled with additional volume of Murphy. The average gas price is likely to be about the same at around 6.9 USD/MMBTU, while the unit cost shall be maintained at around 31 USD/barrel. Lastly, the EBITDA margin has been projected to be about 70-75%.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

Is there any reason for the minimum DCQ of 1,500 MMSCFD from G1/61 and G2/61 together? Any upside potential? And How much will the consolidated unit cost reduce?

Answer from PTTEP's management

The minimum DCQ of 1,500 MMSCFD is the requirement from the Government. However, in terms of reserves, we expect additional upside that is more than the minimum DCQ, in which, the sales volume also depends on the demand. For the unit cost, we aim to reduce the unit cost from the operational synergy which mainly from the areas of drilling, standardized of wellhead platform and logistics. Also, the depreciation will be lower from no major upfront CAPEX since we are able to utilize the existing facilities.

Question # 2

Beside the new G1/61 and G2/61, some of PTTEP's other legacy assets are depleting/expiring in 2026-7 onward, what do you see as the new volume to replenish these depleting assets?

Answer from PTTEP's management

Beyond 5 years, we expect to see production from Lang La Bah, and additional potential volume from the lineup of exploration wells like MD-7 (Myanmar) and exploration blocks in Peninsular Malaysia, if successful. We also plan to maximize value from our legacy assets before expiration as well.

Question # 3

Any progress for the Gas-to-Power project in Myanmar?

Answer from PTTEP's management

For the Gas-to-Power project in Myanmar, we have submitted the project plan to the government of Myanmar and now awaiting for the approval. The Myanmar government has the goal to fully electrify the country. For PTTEP, we have the plan to support this policy by supplying gas from Zawtika and M3 projects to the power plant.

Question # 4

For the new 5-year investment plan that will announced the end of this year, will there be any impact on the sales volume guidance from the low nomination?

Answer from PTTEP's management

We usually incorporate the low nomination situation in our sales guidance. Within these coming 2 -3 years, we expect the amount of low nomination to be lower towards the concession expiry (Bongkot).

Question # 5

Will the IPO of Saudi Aramco have any impact on the oil prices?

Answer from PTTEP's management

The main driven factors on the oil prices are from demand and supply. If the IPO of Saudi Aramco have an effect on these factors, it may have an impact on the oil prices.



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.*