

PTTEP YE 2019 Analyst Meeting

Edited Transcript

Venue: PTTEP Head Office, Auditorium, 6th Floor, Energy Complex building A
11 February 2020
13:30 – 16:30 Hours

Speakers: Khun Phongsthorn Thavisin
President and Chief Executive Officer

Khun Natruedee Khositapha
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 Year-End 2019 Analyst Meeting, featuring the announcement of the Company's operating performance in the year 2019. In this session, our President and Chief Executive Officer; Khun Phongsthorn Thavisin, will share PTTEP's 2019 highlights and beyond, followed by Khun Natruedee Khositaphai, Executive Vice President – Strategy and Business Development Group, to provide an update on strategic direction and growth for PTTEP, and Khun Sumrid Sumneing, Executive Vice President – Finance and Accounting Group, to summarize PTTEP's financial performance in 2019. And without further ado, please join me in welcoming the CEO to commence the presentation.

Khun Phongsthorn Thavisin, President and Chief Executive Officer

First of all, I would like to extend warm greetings to analysts and honored guests. Earlier this year, we had a role change in the form of job rotation to prepare the organization for the future. Khun Montri, who used to be in charge of strategies, planning and new business opportunities, is now supervising all of PTTEP's producing assets. Meanwhile, Khun Natruedee was previously in charge of governance, compliance, risk management and communication, and has now shifted her roles to focus on the strategy and business development.

In short, 2019 has been a year of major developments for PTTEP. Throughout the past 35 years after the establishment, the company has been through roughly 4 major stages. The period of incubation and JVs spanned over a period of about 15 years, followed by the time when we pursued our business endeavors overseas. Then 5 years ago, we have been faced with global changes happening very rapidly and disruptive challenges; oil price volatility resulting from the global perception in terms of demand and supply mechanism. The technological disruption is said to be the main determinant of lower energy consumption globally. However, the technological advancement did have its positive impact as it has enabled exploration activities to identify new resources more effectively.

PART 1: 2019 Highlights and Beyond

Khun Phongsthorn Thavisin,
President and Chief Executive Officer



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2019 Highlights and Beyond:
2019 Key Achievements

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We can say that we have made achievements in almost every aspect of the business in 2019. Production-wise, we have recorded the highest sales volume of 351 KBOED, despite the uncertain situation at the end of 2018. Also, we successfully acquired contracts for Bongkot and Erawan in 2018; a big change for PTTEP indeed. Nonetheless, many people have been skeptical of our competency to operate, given the rather low bid price. But at the end, this is considered a high risk, high return business. And like many other businesses, growing and maintaining profitability is challenging, urging ourselves to adapt in order to sustain in the new era. With that, we have exercised many endeavors to conserve the environment and minimize greenhouse gas emission. With that being said, it is not that we have recently been serious on this matter, we have actually been working on this since 2012, taking it as a baseline and set the target that we must reduce greenhouse gas emission by 25% by the year 2030. In this regard, our goal is quite aggressive. Furthermore, this environmental matter has now been incorporated into the government's policy already.

All of these changes are key catalysts forcing us to be alert, starting from the acquisition of the expiring concessions, followed by the Murphy deal, which perfectly complements our existing assets in Sarawak. We have acquired a total of 5 fields from Murphy, whereby 2 of which are producing assets, 1 is in the development phase and the other 2 are in exploration phase. Moreover, we also acquired additional 2 exploration blocks on the Malaysian peninsula.

We have acquired additional interests in Sinphuhorm Project as we would like to gain more control in terms of development, and we positioned this project as the flagship asset for electricity generation in the northeast of Thailand. At the moment, the northeast of Thailand mostly resorts to the water from Laos to generate electricity, which can be quite uncertain. Therefore, with Sinphuhorm, we can be assured of energy security to a certain extent, which is part of PTTEP's original mission of operating this business from the beginning.

Then, we have officially acquired Partex in November 2019, and the transition plan is now in progress. Essentially, we are interested in the assets they have in the UAE and Oman. In the portfolio, they also have the assets in Kazakhstan, Angola and Brazil as well. Apart from that, the final investment decision was made for the Mozambique Area 1 Project. we are working on a project finance to reduce financial cost, with minor changes in the plan, though the first cargo timeline remains unchanged, while Algeria Hazzi Bir

Rekaiz has been executed as planned. All in all, these assets have joined force in increasing the production capacity for PTTEP from 300 KBOED to 350 KBOED in 2019, raising our reserve life from 5 years to 7.5 years. Over the next 5 years, with all of the assets in the portfolio, we are of the view that average sales shall increase by 6% annually throughout the 5-year period.

Speaking of the exploration activities, which form the base for our business, in 2019 we have come across Lang Lebah; the world's 7th largest discovery of gas field in 2019. There are several developmental stages in taking the field to first production. We have now completed moving towards the conceptual development plan.

We are soon to be the largest gas supplier in Thailand and are the largest production volume in Myanmar, and we own the third largest resource size in Malaysia. Performance-wise, the net income has increased by 40% YoY from 1,120 million USD in 2018 to 1,569 million USD in 2019. We are proud in this achievement as the oil price scenario in the previous year was not that supportive. We have taken a number of efforts to contain our unit costs, increase production volume and maintain profit margins. This achievement is only slightly lower than our peak profitability performance of about 1,800 million USD, and we will strive to take consistent effort in maintaining this.

Nevertheless, 2020 is going to be a challenging year as we are well aware of the fact that gas price will be lower than 2019. Despite that, we believe that the sales volume can increase by about 8% this year to roughly 390 KBOED. It is highly necessary that we must be very cautious when taking actions or making decisions this year.

Meanwhile, we have been able to maintain the safety performance above the industry average, while our governance, risk management and compliance have been well recognized by many institutions. Despite our intention to make this year great again, we have to admit that the situation might not be as supportive as the previous year.

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2019 Highlights and Beyond:

PTTEP's path, strong positioning into the Future of Energy

It is quite unlikely, as agreed upon by many institutes, that our industry is going to die out any time soon, since there are no tangible observations regarding prevalence of the renewable or solar energy. These

alternatives are certainly going to be introduced but they are not substantial enough to play key roles. Going forward, our portfolio will be 70% gas and 30% liquid; the proportion that we will maintain, while intensive focus will be on gas as it offers a certain level of stability and also fits in with the global trend that views gas as clean and reliable energy source.

Our production bases will remain in 5 countries; Thailand, Myanmar, Malaysia, the UAE and Oman. For instance, the exploration drilling in Abu Dhabi will commence in 3Q20, while the exploration drilling of MD-7 project in Myanmar is going to commence in 1Q20; a joint effort between PTTEP and Total. Production-wise, we can expect the first batch of gas from Block H in Malaysia in the second half of 2020, while FLNG is now ready and the well drilling is now in progress. For SK410B or Lang Lebah, we have anticipated the initial capacity of approximately 300-500 MMSCFD. Last but not least, we can expect the first cargo from the Mozambique Area 1 project in 2024, and we are more confident once Total has joined in as the lead operator of this project.

Over the next 5 years, our business outlook is very clear, and our key focus in 2020 will be on exploration activities as we intend to ensure energy security beyond the 5-year period. We believe that the acquired reserves or production capacity is less likely to yield as good of the returns as compared to reserves that we have explored by ourselves. Hence, exploration is considered an activity that involves high risks but also high returns. Looking further, when oil and gas are beginning to lose their significance, we will then need to look for new energy alternatives and new business opportunities. Since PTTEP is strategically positioned as the upstream business for the whole group, we will continue to serve as the upstream flagship.

In the middle of 2019, we have established a new company 'ARV'. The Company has started to generate revenue and there are plans to develop different types of autonomous unmanned vehicles. In the near future, we will be collaborating with a large satellite company to offer solutions in the farming industry. Meanwhile, ARV's technology will be utilized in the exploration activities, and we expect positive synergistic benefits from this collaboration.

To summarize, 2019 has been a successful year for PTTEP in terms of production, exploration, and acquisition of new projects, strictly following the strategic direction we have aspired. In 2020, the emphasis

will be on execution and we will only focus on endeavors that promise timely returns. More importantly, we aim to ensure stability over the medium-term and long-term periods for PTTEP.

PART 2: Strategy and Growth

Khun Natruedee Khositapha,
Executive Vice President – Strategy and Business Development Group



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Driving towards Sustainability

I believe you are all familiar with the sustainability development framework that has been shared earlier on. Previously, our sustainability measures were executed in an ‘outside-in’ approach, following the standard guidelines of the United Nations and the DJSI, which we are still observing very actively. However, we have shifted to an ‘inside-out’ focus, from ‘We’ to ‘World’, with the intention to operate the business under the sustainability mindset, meanwhile transferring values to all stakeholders and the society as a whole. In doing so, we are still adhering to the 3 main pillars; HPO, GRC, and SVC, while at the same time aligning with our new vision ‘Energy Partner of Choice’. The 3 pillars under the SD framework primarily feature 3 notions; be good, be smart and be responsible.

The High Performance Organization pillar or HPO involves operating the business under the ‘Expand and Execute’ strategies, with key emphasis on execution, operational excellence, capability development, innovation and technology and safety.

With regards to governance, risk management and compliance; GRC, our principle is to operate the business with transparency, righteousness and fairness, with strict compliance with laws and regulations, while adhering to the principle of governance and risk management.

The key idea for stakeholder value creation; SVC is to be responsible for what we do, whereby our priority is to reduce greenhouse gas emission, make contribution for the society and conserve the environment. These 3 pillars will serve as a principal framework to develop our strategic direction as we go forward.

HPO: Together Driving the Organization with “Execute” and “Expand”

Since our standpoint is to focus on execution, it is critically important to ensure smooth transition and business continuity in terms of gas production. For instance, we need to deliver our commitment to the government in producing gas from Bongkot and Erawan by the year 2022 and 2023. Meanwhile, we need to deliver sales volume and first gas from the newly acquired assets in Malaysia from Murphy as committed in our plan. With the incorporation of Block H, the production capacity will be enhanced in the middle of 2020. For the newly acquired assets from Partex, there are details regarding the involved JVs that we need to properly manage.

In terms of existing assets, we need to make sure that they are appropriately optimized. Despite being the mature assets, some of them still have the potential to yield good returns, for instance, S1 had hit record high production at 40,000 BPD in the previous year, together with the adoption of new production technique, i.e. Enhanced Oil Recovery to extract every drop of oil, including other legacy assets in the Gulf of Thailand. According to the advanced technology, we are now able to extract oil from underground with lower costs than before. For projects under development, Mozambique Area 1 and Algeria HBR projects have already achieved the FID in 2019.

Speaking of exploration, the acquisition of new assets does help with increasing our production volume. But more importantly, we need to ensure that these reserves have a promising potential for growth and sustainability, and that is enabled through exploration activities. Doing so involves high risks and also high returns; the exploration drilling cost is lower compared to the acquired reserves. With that, our plan is to drill 18 exploration wells in 2020, mainly in Malaysia, as well as in Myanmar (MD-7 Project).

With our focus on execution, when any potential opportunities present themselves, we need to be extremely sure that they fit in with the overall picture and add value to our portfolio prior to making decisions to acquire.

Stakeholder Value Creation

There are 3 major themes under the Stakeholder Value Creation; SVC. The first of which is the greenhouse gas reduction, aiming to reduce the emission of greenhouse gases and utilize resources effectively. Smart logistics feature wise use of oil and other resources related to transportation more efficiently, together with leakage prevention and reforestation. Our target is to reduce greenhouse gas by 25% by the year 2030, using 2012 as the base year.

As for the Circular Model for E&P, previously things that are no longer used were discarded or thrown away, which might cause other serious problems. Therefore, this theme intends to encourage reusing objects for other purposes, for instance, topside and wellhead platforms. With this concept in mind, these platforms are now being designed in a standardized manner so that they can be reused in the future. For drill cuttings extracted from the exploration activities, previously they were sent back to the shore to burn, now we mix them with asphalt and use as materials for road construction. The target is to reuse 50% of the structures by the year 2030 and produce zero waste to the landfill.

The last theme under SVC is Ocean for Life, whereby the objective is to improve biodiversity and local wealth, especially for marine creatures to be more diverse and complete the food value chains. Now, we have CSR projects that support on crab and turtle hatchery, and we are looking to add whale sharks into the project, as whale sharks are quite reflective of the fertility of the ocean, since they are at the topmost of the marine food chain. Furthermore, we aim for a Zero Spill, which we are already doing, as well as the development of the baseline for micro-plastic. Nowadays, excessive use of plastic has been an on-going issue worldwide and we talk a lot about this. However, we lack a certain benchmark to determine the extent of the 'excess', so we are going to sign an MOU with Kasetsart University to work on this matter to develop the plan and set the target for plastic use reduction.

Governance, Risk Management & Compliance

This matter is quite self-explanatory. We employ zero tolerance for corruption and non-compliance, with appropriate risk management and control. In this regard, PTTEP does have a process in place to ensure that the GRC is truly effective, enabled through the policy that is applicable to everyone. We have the governing bodies to monitor this issue, ranging from the Board of Directors to sub-committees; Risk

Management Committee, Audit Committee and Corporate Governance Committee. We create an awareness among staff members through the policy, communication and training. As a monitoring measure, we perform control and audit activities via the 3 Lines of Defense and Control Self-Assessment. Last but not least, in case of non-compliance, whistle blowers may also submit the case via the CG Hotline. PTTEP has been well recognized of the excellence in this matter through awards and recognitions; the NACC Integrity Award from National Anti-Corruption Commission (NACC) and the 2019 Role Model Organization Award on Human Rights from Ministry of Justices.

In conclusion, our intention is to ensure growth and sustainability for the Company, with the business execution plan and proper control, while at the same time transferring values to the stakeholders and the society in general.

PART 3: Financial Performance

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



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2019 Key Financial Performance

Strong core performance supported by higher volume and gas price

The net income in 2019 was recorded at 1,569 million USD, increasing by 40% YoY, enabled through the acquisition of Murphy assets in July, Partex deal in November, and full-year recognition from the acquisition of additional 22% interest in Bongkot which was completed in mid of 2018. Moreover, there was a divestment of Montara asset in 2018, hence the relevant expense was no longer incurred in 2019.

In 2019, one of another key factors that has impact to company's performance is the appreciation of Thai Baht; from 32.45 Baht/USD to 30.15 Baht/USD, which resulting in a decrease of income taxes expenses relating to changes in foreign exchange rate. In the meantime, the average oil price in 2019 was 63.50 USD/barrel, while it was 69 USD/barrel in 2018.

There are a few reasons for the increase in profitability in 2019. The first one of is the increasing in sales volume by 15% from 306 KBOED to 350 KOBED, mainly from the acquisition of 22% interests in Bongkot Project, Malaysia Asset and Partex

With the drop in oil price, the average selling price of liquid decreased from 67.4 USD/barrel to 61.18 USD/barrel. However, gas price remains strong at 6.92 \$/MMBTU as there was some lagging time effect in the gas price adjustment. Thus, the weighted average selling price was slightly increased YoY.

On the cost side, we have been able to maintain the unit cost at 31.71 USD/barrel. Even the cash cost has increased slightly, non-cash cost has dropped, mainly from no high DD&A from Montara divestment.

2019 Cash flows and Financial Position

The beginning cash at early 2019 stood at approximately 4 billion USD. The total amount of cash outflow in 2019 was approximately 6.2 billion USD mainly from the acquisition of Murphy and Partex assets that costs about 2.8 billion USD. However, with the operating cash flows and cash inflow from bonds and long-term borrowing of 5.2 billion USD, the ending cash remained at 3 billion USD, which was enough to support our operations. At the present day, the amount of cash on hand is about 3.2 billion USD.

With regards to the capital structure, the assets increased from 19,484 million USD to 22,202 million USD YoY, mainly from the acquisition of Murphy and Partex assets. Other Liabilities increased due to the decommissioning of Murphy and Partex, while the interest bearing debt also increased by about 1.4 billion USD from new long term loan of 600 million USD, new bonds issuance of 650 million USD, and Thai Baht bond issuance of 480 million USD with some loan repayment. The Equity was slightly drop from 12,005 million USD in 2018 to 11,841 million USD in 2019, despite the increase in net profit of 1,569 million USD, because there was a dividend payment amounted to about 700 million USD, and there was a settlement of perpetual bond amounting of 1 billion USD. The D/E ratio slightly increased from 0.16x to 0.29x. The weighted average cost of debt decreased YoY from 5.32% to 4.41% in 2019, and is currently around 3.9%, as a result of our liability management.

Five –Year Plan

Over the next 5 years, we projected compounding Annual Growth Rate (CAGR) of sales volume for 5 year period of around 6% from 351 KBOED in 2019 to 470 KBOED in 2024. This was driven the achievement of our acquired projects. For instance, Murphy assets and Partex will yield full year impact in 2020, resulting in higher volume than 2019. The Mozambique Area 1 project will start contributing volume from 2024 onwards, with Bongkot and Erawan adding up in 2022 and 2023 respectively.

In terms of investment over the next 5 years, OPEX and CAPEX is 24,619 million USD, inclusive of such key projects as Bongkot, Erawan, Murphy, Partex and Mozambique Area 1.

Dividends and Outlook

The dividend payment increased from 5 Baht to 6 Baht per share in 2019. However, when it comes to dividend payment, we also consider both the absolute number and the payout ratio, which is about 50%, while the dividend yield varies between 3-5%. Also, the net income in 2019 was higher than that of 2018, hence the dividend payment was agreed at 6 Baht per share.

With regards to the guidance, the average sales volume in Q1/20 is expected to be around 394 KBOED; about the same as that of Q4/19. For the full year of 2020, we expected slightly drop in sales volume to 391 KBOED due to the upcoming annual maintenance shutdown of Bongkot, Contract 4 and Zawtika projects during the year. The average gas price in Q4/19 was 6.9 USD/MMBTU, which is likely to remain unchanged in Q1/20. In this regard, the impact from the IMO's regulations on low-sulfur fuel oil will start to take effect from Q2/20 onwards; the potential factor causing the average gas price throughout the whole year to decrease to 6.4 USD/MMBTU. Lastly, the unit cost should remain pretty much unchanged at 32 USD/BOE, while the EBITDA margin should have been maintained in the range of 70-75%.

PART 4: QUESTIONS & ANSWERS (Q&A)

Question # 1

What is your assumptions on the 5-year guidance?

Answer from PTTEP's management

For 5-year guidance, we assume the oil price assumption of 60 \$/BBL in 2020 and 60-63 from 2020 onwards.

Question # 2

What is the update on the Gas-to-Power?

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 propose to support the plan by supplying gas from Zawtika and M3 projects to the power plant.

Question # 3

For the GHGs Intensity Reduction target, how are you going to achieve it?

Answer from PTTEP's management

We have set the target to reduce 25% GHGs emission intensity from base year 2012. To achieve that, we have done "Flare Gas Utilization" which is the reusing excess gases and gases that would otherwise be flared and put them back into the production process; and "Smart Logistics" which is the centralization of vessel utilization for offshore projects that will help conserve the fuel used and in turn reduce GHGs emissions. Also, we are currently studying the Carbon Capture & Storage.

Question # 4

Could you update progress on the business transition and integration for Murphy?

Answer from PTTEP's management

The business transition progress is going well. Currently, our Malaysian teams have already merged to one single team.

Question # 5

Could you update progress on Erawan transition in terms of decommissioning?

Answer from PTTEP's management

In terms of the decommissioning between Chevron and the regulator, it is currently in the process of negotiation. For the transition, PTTEP has commenced with the preparation which includes planning for exploration drilling, initiating construction platform and gas pipelines, and other studies to ensure smooth gas supply in accordance with the volume stated in the PSC.

Question # 6

What is your policy on the M&A going forwards?

Answer from PTTEP's management

For M&A, after the recent expansions from last year, we are now focusing more on the execution strategy e.g. focus on transitions and operations of the newly acquired assets. However, we are still open if there is any M&A opportunities that fit with our portfolio.



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.*