

Oil and Gas Development Company Limited

Conference Call on Full Year Results FY2012 (July 2011 – June 2012)

Presenters: Mr. Masood Siddiqui, (Managing Director / CEO)
Mr. Muhammad Rafi, (Executive Director – Finance / CFO)
Mr. Zahid Imran Farani, (Executive Director - Exploration)
Mr. Khalid Subhani, (Executive Director - Production)

Date: Thursday, August 09, 2012

Time: 4.00 PM (Pakistan Standard Time)

Operator: Good day and welcome to the OGDCL Full Year Financial Results FY 2012 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to MD & CEO OGDCL, Mr. Masood Siddiqui. Please go ahead, sir.

Mr. Masood Siddiqui: Hi, dear ladies and gentlemen, I welcome you all to OGDCL's full year 2012 results announcement conference call. I believe all of you have received the OGDCL full year results 2011-12 presentation which our Investor Relations team has sent to you a short while ago. Let's start on page 2 of the presentation where I'll ask you to go over the legal disclaimer first. I'll take a short pause while you read the legal disclaimer.

All right, hopefully everybody got through the legal disclaimer so let's move forward. I feel excited to inform you that our company is the largest upstream player in Pakistan. We enjoy the largest share of exploration acreage in the country, which stands at 23% of the total awarded acreage. As of December 2011, OGDCL holds 48% of the country's recoverable oil reserves and 31% of the country's recoverable gas reserves. In terms of production, currently we are producing 27% of Pakistan's gas output and 58% of its oil output. Our remaining 2P recoverable reserves estimated as at June 2012 stood at an impressive 1,079 MMBOE. We have a portfolio of 61 fields out of which 46 fields are 100% owned and operated, while 15 are non-operated fields where we act as non-operators, having joint venture agreements with foreign as well as local E&P companies. We have extensive experience of operating in all four provinces of the country and

hence have acquired expertise which is second to none in operations in all the varied geological terrains of Pakistan.

On the production volume side, OGDCL witnessed a 7.7% increase in its net gas production and registered a modest increase in its crude oil production when compared to last year. During the period under review, OGDCL was able to spud 17 wells which included 7 exploratory & appraisal and 10 development wells; and two new significant oil and gas discoveries, namely Nashpa-2 in the Nashpa Exploration Licence and at Zin X-1 in Zin Exploration Licence were made.

Going forward to slide 4, you'll see a map which clearly shows our dominant position in all the prospective areas of Pakistan. A province-wide break-up as well as operated and non-operated break-up of our exploratory licences in the country is also shown here along with the pie chart which illustrates the province-wide percentage acreage of OGDCL.

To carry on with the presentation, I will now ask Mr. Muhammad Rafi, who is the Executive Director (Finance) and CFO, and other heads of department to take you through the next few slides of this presentation.

Mr. Muhammad Rafi: Good afternoon, this is Muhammad Rafi. Moving to slide number 5 which shows strong financial performance of the Company, I am pleased to say that during the period under review, the Company witnessed a rising trend of profitability and improved performance. The Company's sales revenue and profit after taxation grew by 27.1% and 52.5% to Rs 197.838 billion and Rs 96.906 billion, respectively. This translates into earnings per share of Rs 22.53 compared with Rs 14.77 during the preceding year. These results are primarily attributable to the increased gas production and higher realised prices of crude oil, gas and LPG which averaged US \$84.91 per barrel, Rs 228.56/Mcf and Rs 74,020 per metric ton, respectively. The operating profit margins and net profit margins stood at 62% and 49%, respectively. In addition, the Directors of the Company today approved a final payable dividend of Rs 2.75 for the year. This makes the total dividend declared during the year up to Rs 7.25 per share. I now hand over the

presentation to Mr. Zahid Imran Farani, who is OGDCL's Head of Exploration, to continue with this presentation

Mr. Zahid Imran Farani: Good day, ladies and gentlemen. I am Zahid Imran Farani and will be taking you through slide 6. During the period under review, the Company marked 23 well locations and spudded 17 new wells, including 4 exploratory wells (namely Uch Deep-1B, Aradin-1, Naurang Shah-1, Kohat-1), 3 appraisal wells (namely Dhacharapur-2, Zin-2, Zin-3) and 10 development wells (namely Rajian-6, Uch-19, Uch 27, Uch 32, Qadirpur-43 ERW, Qadirpur-44 ERW, Qadirpur-45, Qadirpur HRL-6, Pasakhi-8 and Pasakhi -9). In addition, drilling or testing of 14 ongoing wells from previous financial year was also continued during the current financial year. Subsequently, the Company has also spudded an exploratory well namely Raja-1 and an appraisal well, namely Nashpa-4, during July 2012.

As of 30th June 2012, the Company held the largest exploration acreage in the country, covering an area of 61,079 square kilometres. This includes twenty two (22) 100% owned exploration licences and 12 operated joint venture exploration licences. Additionally, OGDCL also has working interest ownership in 7 blocks operated by other companies.

During the period under review, the seismic crew of the Company acquired 2,589 linear kilometres of 2D and 654 square kilometres of 3D seismic data. Furthermore, 3,714 linear kilometres of 2D seismic data was processed and reprocessed. Now Mr. Khalid Subhani, Head of Production, will take you through the next couple of slides.

Mr. Khalid Subhani: Hello, everyone. This is Khalid Subhani and let's go over slide number 7. During the period under review, the Company's endeavour to boost production in oil and gas led to significant increase in the net gas production by approximately 7.7%, aided by the start-up of the gas production on completion of Phase I of the Kunnar Pasakhi Deep-Tando Allah Yar (KPD/TAY) development project, increase in the production from Bahu, Pirkoh, Uch, Mela, Chanda, Nashpa, and Qadirpur fields along with the increase in share of gas from non-operated joint venture fields.

The Company's net crude oil production also witnessed a modest increase. It is pertinent to mention here that the above said increase in the oil and gas production has been observed against a backdrop of torrential rains and floods which continued intermittently during the first half of September 2011, mainly in the southern region fields, adversely affecting the Company's production activities. In order to further enhance the oil and gas production base, the Company is making all-out efforts to develop the following fields, i.e. Nur/Bagla, Jakhro, Gopang, Nim and Nim West using its own resources.

With respect to the developments of our on-going projects, an update is provided in the next slide.

KPD-TAY Integrated Development Project: OGDCL has successfully completed Phase I of the KPD-TAY project and has started supplying around 110 MMcf dehydrated gas per day, 1,500 barrels per day of the condensate and 140 metric tons per day of the LPG. The Phase II of KPD/TAY project is expected to be completed by February 2014, leading to a cumulative production of 225 MMcf sale gas per day and 5,100 barrels per day of the condensate/NGL and 410 metric tons per day of the LPG. The Company is also trying to engage an EPC contractor for the LPG and gas processing facilities on a rental basis till such time the Phase II of the KPD-TAY development project is brought on-stream.

Sinjhoru Development Project: Shifting of the plant and equipment from Dhodak to Sinjhoru is nearing completion. The project will be completed in two phases. Phase I of the project is expected to be completed by September 2012 with an estimated production of 16 MMcf of gas per day and 1,400 barrels per day of crude oil and 50 metric tons per day of the LPG. Additional production of 9 MMcf of gas per day and 1,600 barrels per day of crude oil and 70 metric tons per day of the LPG is expected on the completion of the Phase II of the project, which is expected by May 2013.

Dakhni Development Project: Most of the equipment/packages have been installed under Dakhni Expansion Project and production from the field has been increased to 50 MMcf of gas per day. Sulphur Recovery Unit and Solidification Unit have been acquired

and commissioned. Additional production of the sulphur to the tune of 15 to 20 metric tons per day is expected after September 2012.

Moving on to slide number 9, the **Jhal Magsi Development Project** is under implementation for which press tender in connection with the processing facilities have been issued. M/s SSGCL will lay down 85 kilometres of gas pipeline and the project is anticipated to be completed in December 2013, leading to an expected production of 15 MMcf of gas per day.

Uch-II Development Project: Under the Uch-II development project, the drilling/completion of all 15 development wells were successfully completed. The project is expected to be completed by February 2014, enabling OGDCL to put on-stream another 160 MMcf of gas per day to Uch-II Power Limited (UPL-II), which will be utilised for the power generation purposes.

Nashpa and Mela Development Project: Nashpa and Mela development project is under engineering phase for installation of LPG plant and compression facilities. Nashpa development project is expected to be completed by January 2014 and is anticipated to produce 70 MMcf of gas per day, 16,000 barrels per day of crude oil and 257 metric tons of LPG per day. Mela development project is expected to be completed by December 2013 and upon its completion, production of 16 MMcf of gas per day, 7,500 barrels per day of crude oil and 87 metric tons per day of LPG is expected.

That concludes a rundown on all our development projects. Now I ask Mr. Muhammad Rafi, our CFO, to continue with the presentation.

Mr. Muhammad Rafi: Ladies and gentlemen, moving to slide number 10 which provides a graphical presentation of our financial performance. We see a significant growth in net sales and net profit after tax. Operating expenses increased by 4.2%, mainly on account of expenses related to repairs and maintenance, and stores and supplies consumed. Exploration and prospecting expenditure declined by 38.9%, mainly because of decrease in cost of wells charged as a dry hole. During the year under review, no well was declared a dry hole against 7 wells in the year 2010-11. The prevailing issue of

inter-corporate debt in the industry is having a detrimental effect on OGDCL and its trade receivables, as of 30th June 2012, stood at Rs 138.096 billion, which included an overdue amount of Rs 92.878 billion. Efforts are underway for an early resolution of the issue.

Turning on to slide number 11 and we see a healthy financial snapshot of our company. We have been able to improve on all of our key financial indicators when compared with the corresponding periods.

Ladies and gentlemen, to take you to the conclusion of the presentation, I'll now hand over the presentation back to our MD and CEO, Mr. Masood Siddiqui.

Mr. Masood Siddiqui: OGDCL's management is fully focused on achieving consistent growth in production volumes of the company. To this end, we are on a constant pursuit of conducting successful exploration with a view to increase our reserves base. OGDCL is fully committed to ensure the speedy development of our projects in the pipeline and achieve the production results through implementing international best practices across all our operations. Finally, we plan on achieving all this production growth by leaving a minimum signature on the environment and at the same time enhancing the welfare of communities where our operations are located.

This, ladies and gentlemen, concludes our presentation for today and I thank you all for joining in the conference call. We now ask the operator to conduct a Q&A session which we expect to be no more than fifteen minutes. Thank you.

Operator: Thank you. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will now pause for just a moment to allow everyone an opportunity to signal.

We will now take the first question. It comes from Fawad Khan from KASB Securities. Please go ahead.

Fawad Khan: Good evening everyone. I have three questions on the development projects of OGDCL. Firstly, will appreciate if status on the Qadirpur compression project be updated as, during the first half presentation, OGDCL commented that the production from Qadirpur could be increased after the installation of compressors relocated from the Pirkoh field?

Mr. Masood Siddiqui: Okay, I'm going to pass you on to the relevant manager who will answer that question on the Qadirpur compression status.

Mr. Zahid Bakhtiar: As you know that OGDCL has already installed and commissioned 14 compressors at the Qadirpur field since October 2010. At the moment, we are in the process of shifting 3 turbo compressors from Pirkoh gas field whereas 2 of these compressors have already been shifted to Qadirpur.. Later on, after the commissioning of two new reciprocating compressors at Pirkoh field, the third compressor will be brought to Qadirpur field. By installing these 3 compressors, OGDCL will be in a position to maintain the present plateau of gas from Qadirpur field.

Fawad Khan: Coming to my next question, is there any update on the development of Sara West field; has the government allocated gas from this field yet?

Mr. Masood Siddiqui: OGDCL has drilled two development wells in the Sara West field. It is planned that 120 MMSCFD gas from this field will be processed to a heating value of 300 BTU/SCF @ 40 MMSCFD and supplied to M/s Engro after allocation of this gas by the Government. Coming to the second part of your query, the Government has yet to allocate Sara West's gas.

Fawad Khan: Any timing that you are looking at for the field development?

Mr. Masood Siddiqui: The timing will depend on how soon the gas from Sara West will be allocated.

Fawad Khan: Thanks now coming to my last question which relates to the Kadanwari field, which is a non-operated field under your portfolio. I understand you have had successful drilling results on Kadanwari-27, -28 and -29, with significant increase in expected production. What's the update on the likely link-up of those shut-in wells?

Mr. Masood Siddiqui: I think it is unfair to talk on behalf of the operator on this, which is M/s ENI, you may directly get in touch with the operator.

Fawad Khan: All right. If I may ask one more question on the exploration side, what's the status on Khawaja Well 1 which was under drilling for quite some time? Has it been declared dry or are there any further drilling plans on this well?

Mr. Zahid Imran Farani: Khawaja-1 well is currently suspended and we have conducted further studies in more detail so as to develop a new drilling strategy.

Fawad Khan: Okay, thanks.

Operator: We will now take our next question. It comes from Nauman Khan from Topline Securities. Please go ahead.

Nauman Khan: Thank you for giving such a comprehensive presentation, would appreciate if you could throw some light on the drilling and testing results of Nashpa 3 well?

Mr. Masood Siddiqui: Yes, Nashpa-3 is currently under testing phase. We don't have conclusive information just yet. OGDCL will announce testing results as soon as the production testing results are finalized and firmed up.

Nauman Khan: My next question pertains to pricing issue of Qadirpur field. Recently there are rumours in the stock market as well as in the print media that Government of Pakistan (GOP) and OGDCL are in negotiations to finalize the pending pricing issue of Qadirpur field. Is there any development on this?

Mr. Muhammad Riaz Khan: As far as news items and stock market rumours are concerned, as per Company policy, OGDCL does not comment on the same. However, let me state here that OGDCL along with other QP Joint Venture partners have been pursuing the matter with GOP for an early resolution of the issue since the past few years. In this regard, we hope that the long outstanding matter comes to a quick resolution.

Nauman Khan: And will the effect be retrospective or will the effect be from current date?

Mr. Muhammad Riaz Khan: This is a question best asked to the GoP, OGDCL is not aware of contents of the summary being presented to the Economic Coordination Committee on this matter.

Nauman Khan: Okay, a couple of more questions relating to OGDCL's Term Finance Certificates (TFC) of Rs 82 billion. Can you provide some guidance about the modalities (interest rate, cash outflow transaction etc) of the TFC issue?

Mr. Muhammad Rafi: GoP, as a measure for partial resolution of inter corporate circular debt, has given a go-ahead to M/s Pakistan Electric Power Company (PEPCO) to issue Rs 82 billion worth of TFCs where various receivables and payables of companies (in the energy sector of Pakistan) would be adjusted as per the approved mapping methodology. OGDCL will subscribe to these TFCs after settlement of its claims against companies that owe funds to OGDCL which include refineries and gas transmission & distribution companies among others. These TFCs would carry an effective interest rate of 6 months KIBOR + 1% and there would be no cash outflow of the Company as this would be a cash neutral transaction.

Nauman Khan: Thanks for providing clarification on the modalities of the TFC issue. I have another question on the status of OGDCL's dormant fields especially with respect to the provincial government's stake after the 18th Amendment?

Mr. Masood Siddiqui: We don't want to comment on the political parts of it, what I can tell you is that we're planning to commercialise most of our stranded/dormant fields as soon as possible.

Nauman Khan: My last question pertains to the composition of other income. Can you shed some light on the increase in other income?

Mr. Muhammad Rafi: The main components of other income are the interest income on bank deposits and exchange gain. Other income increased on account of increase in interest income on bank deposits which has increased from Rs 2.7 billion to Rs 6.8 billion.

Nauman Khan: Thank you very much for your time.

Operator: Thank you. We will now take the next question. It comes from Asim Khan from Foundation Securities. Please go ahead.

Asim Khan: Thank you for the presentation. I would like to congratulate you on exceptional results. Talking about the Company's exploration program, which exploration blocks will be the focus of your exploration programme in FY '13 and beyond?

Mr. Zahid Imran Farani: We have 34 exploration blocks, and we are focused on all of them. Some of them are under security situation and as soon as we get security clearance, we will initiate exploration activities in these blocks too. So our focus is in all the blocks.

Asim Khan: Lets suppose if there is a decent discovery having a low heating value, then how long would it take to develop the field?

Mr. Masood Siddiqui: Our priority is to develop and monetise our hydrocarbons as fast as possible. Now of course there are the additional challenges, but you know, in the usual business development plan, we tend to move as quickly as possible.

Asim Khan: It was mentioned in last year's half year results conference call presentation on Sinjhor Project that by April 2012, the second phase of the project will be completed but the revised date is now May 2013. So can you tell us about what has been causing the delay and what is the likelihood of further delays in the execution of this project?

Mr. Zahid Bakhtiar: The main reason for the delay in the Sinjhora project was due to the unprecedented rains last year. Currently, we are targeting the first phase to be completed by September 2012 and the second phase will be completed by May 2013. OGDCL does not foresee any further delays we expect that we will achieve these targets.

Asim Khan: On the KPD/TAY project, in the last half-year's conference call presentation OGDCL stated that after the completion of Phase II of the project, the cumulative gas production will increase to 285 MMcfd of sale gas but now the figure has been downgraded to 225 MMscfd. Can you share the reason for this decline?

Mr. Zahid Bakhtiar: The decline is based on the reassessment of our existing reservoirs.

Asim Khan: What is the processing capacity of the dehydration plant located at the Sheikhan field? Is it 100 MMcfd?

Mr. Zahid Imran Farani: Yes, that is correct.

Asim Khan: So, I believe currently the field is producing about 0.2 or 0.3 MMcfd, what is the rationale of having such a big plant for such a small production?

Mr. Zahid Imran Farani: When the plant was shifted to the Sheikhan site, it was producing 15 MMscfd of gas and was expected that the production from the well be increased further. Unfortunately, that did not happen. Furthermore, OGDCL is currently drilling another well, namely Kohat-1 in the vicinity and hopefully that will be tied into this plant.

Asim Khan: Coming back to the question previously raised on the TFC issue, my question is will the transaction help alleviate the cash problem of OGDCL.

Mr. Muhammad Rafi: As far as cash balances are concerned, the overall balance of cash during the year increased by Rs 3.3 billion.

Asim Khan: When is this transaction expected to be executed and when will we see the effect appearing on OGDCL's balance sheet?

Mr. Muhammad Rafi: The case has been referred to Ministry of Law and once it is cleared from there, Ministry of Finance will advise/confirm about the final timeline for placement of the TFCs.

Asim Khan: Coming to the Qadirpur compression, I understand that Qadirpur reciprocating compressors and relocated Pirkoh compressors are a temporary solution to the declining pressure of Qadirpur field. Is there a plan for a Central Compression facility as a final compression measure for the field?

Mr. Zahid Bakhtiar: As I stated earlier, OGDCL is shifting three high-capacity centrifugal compressors from Pirkoh field to Qadirpur. This will be in addition to the 14 compressors already installed and working at QP field. All compression requirements of Qadirpur field will be met by installing these compressors.

Asim Khan: Right, thank you. That would be all from my side.

Mr. Zahid Bakhtiar: Thank you.

Operator: We will now take the next question from Muhammad Raza from Elixir Securities. Please go ahead.

Muhammad Raza: Thank you for the presentation. Referring to the PPIS Monthly Production report regarding Uch gas volumes, there is an increase of gas from Uch field to the tune of 278 MMSCFD. Can you please throw some light on this increase, where is it coming from? Also, with respect to the Uch-II Project coming on line in February 2014 which is expected to add 160 MMscfd of gas, will that be in addition to the current production of 200 MMscfd?

Mr. Khalid Subhani: The sales gas from Uch field remains in the vicinity of 200 MMscfd and there has been no noticeable variation in the same. PPIS might have stated the raw gas

production numbers which average about 260MMscfd. Referring to your second question, the 160 MMscfd gas from Uch-II Project will be in addition to the 200 MMscfd gas which is already being produced from the Uch field.

Muhammad Raza: Thanks for the clarifications. My second question is regarding Zin field. What are the estimates of reserves from this field, given that you have already drilled one well and two more wells are in the pipeline?

Mr. Zahid Imran Farani: Zin is under appraisal phase right now. We are currently drilling the third well and plan on drilling three more wells to appraise the field. Firm numbers on reserves of this field will only be available after receipt of testing results of these appraisal wells.

Muhammad Raza: Sir you have mentioned Nashpa development project and you have said that through Nashpa project you'll be getting about 16,000 barrels of oil per day by January 2014. Is this number in addition to the current production from the Nashpa field or is this a cumulative production number which includes the current production?

Mr. Khalid Subhani: The Company expects that the cumulative production from Nashpa field will be 16,000 bpd.

Muhammad Raza: Thanks. Sir, my fourth question is on your drilling targets for the current fiscal year, can you provide some guidance on that?

Mr. Masood Siddiqui: It is not yet in the public domain. We will make an announcement on our drilling targets by the end of first quarter.

Muhammad Raza: All right, and can you also guide us on your production targets for next year, what increase are you targeting in oil and gas?

Mr. Masood Siddiqui: All production targets will be shared by the end of first quarter.

Muhammad Raza: Thank you, sir.

Mr. Masood Siddiqui: Okay, can we now take one last question as we're running a little over time here.

Operator: Yes, we will now take the next question from Salman Vidhani from HMFS. Please go ahead.

Salman Vidhani: Thanks for the presentation. I have a question on taxation; it seems that OGDCL's tax rate in the last quarter was fairly low at around 21%. Is there any specific reason for that?

Mr. Muhammad Rafi: The tax rate is applied as per the prevailing tax laws. Moreover, there were more deductions and more write-offs on account of exploration and prospecting expenditures in the last quarter and that was why the effective tax rate was lower.

Salman Vidhani: Thanks, will appreciate if the Management can share the break-up of exploration and evaluation assets in conference call transcript?

The break-up of exploration and evaluation assets as at 30 June 2012, is enclosed at the end of this transcript as Annexure "A"

Salman Vidhani: Thank you so much. That's all from my side.

Mr. Masood Siddiqui: Okay, ladies and gentlemen, thank you very much. It was some very interesting questions and I hope all of you enjoyed our presentation today. We look forward to chatting with you again after our half year FY 2013 results announcement.

Operator: That concludes today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

Annexure "A"

BREAK-UP OF EXPLORATION AND EVALUTATION ASSETS

As at June 30, 2012

Exploratory Wells in Progress	(Rupees '000)
Wholly Owned	
Uch Deep Well 1B	434,632
Narang Shah Well # 1	279,719
Ajuwala Well # 1	1,391,967
Sundrani Well # 1	1,856,767
Raja Well # 1	80,240
	4,043,325
Joint Ventures	
Chak Naurang South Well # 1	1,002,760
Zin Deep Well # 1	79,408
Khawaja Well # 1	1,428,644
Aradin Well # 1	147,326
Saand Well # 1	302,037
Jabbi Well # 1	431,781
Kohat Well # 1	85,196
Mardan Khel Well # 1	10,348
	3,487,499
	7,530,825
Stores held for Exploration and Evaluation assets	
Opening Balance	3,784,110
Additions during six months	147,610
Issuance during six months	(1,056,389)
	2,875,331
TOTAL	10,406,156