Oil and Gas Development Company Limited

Conference Call on Full Year Financial Results FY 2016 (July 2015 – June 2016)

Presenters: **Mr. Zahid Mir (Managing Director / CEO)**
Mr. Irteza Ali Qureshi (Chief Financial Officer)
Dr. Naseem Ahmad (Executive Director – Production)
Mr. Ahmad Hayat Lak (Company Secretary)
Khawaja Masood Ahmad (Head of Exploration)

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Time: **5:00 PM (Pakistan Standard Time)**

Mr. Zahid Mir: Good afternoon and welcome to OGDCL's Full Year 2016 Financial Results Conference Call. My name is Zahid Mir, I am Managing Director of OGDCL. Before I proceed with the presentation, let me first introduce my team to you. I've with me here Mr. Irteza Ali Qureshi, Chief Financial Officer, Dr. Naseem Ahmad, Executive Director (Production), Mr. Ahmad Hayat Lak, GM (Legal Services) & Company Secretary, and Khawaja Masood Ahmad in place of Head of Exploration.

The structure of the presentation will consist of an overview of the Company, its operational and financial highlights and then the closing remarks.

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Ladies & gents, I am pleased to inform you that during the year 2015-16, OGDCL witnessed stable operational performance and remained the largest producer of hydrocarbons in the Country. OGDCL, being the largest upstream player in Pakistan, enjoys the largest share of exploration acreage in the country, which stands at 31% of the total awarded acreage. As of June 30, 2015, OGDCL held 59% of the country's recoverable oil reserves and 36% of the country's recoverable gas reserves. In terms of production, during FY 2015-16, OGDCL delivered 28% of Pakistan's gas output and 48% of its oil output. Our remaining 2P recoverable reserves estimates, as at June 30, 2016, stood at an impressive 946 MMBOE. OGDCL have a portfolio of 103 Development & Production Leases (D&PLs) out of which 69 D&PLS are 100% owned and operated while

34 are non-operated D&PLs where we act as non-operator having Joint Venture agreements with foreign as well as local E&P companies. OGDCL enjoys unmatched E&P expertise in our operations, which are spread out all over Pakistan. During the fiscal year 2015-16, OGDCL produced average net crude oil as 40,609 bpd, average net gas as 1,056 MMcfd, average net LPG as 342 MTPD and average net Sulphur as 39 MTPD, respectively.

During the period under review the Company spud twenty six (26) wells which included twelve (12) exploratory/appraisal wells and fourteen (14) development wells and Company's exploratory efforts to discover new hydrocarbon reserves yielded six (6) new oil and gas discoveries.

Moving on to the next slide 4, where you see a map of Pakistan which clearly shows OGDCL's dominant position in all the prospective areas of Pakistan. OGDCL's concession portfolio contains a diverse portfolio of exploratory assets with the potential to offer robust short, medium and long term growth opportunities. These exploratory assets of the Company currently constitute sixty (60) owned and operated joint venture exploration licenses along with holding working interest in six (6) blocks operated by other exploration and production companies. Having spread across all four (4) provinces of the Country, the Company's exploratory licenses cover an area of 112,453 sq. kms as of 30 June 2016 which is the largest exploration acreage held by any E&P Company in Pakistan.

That's a short overview of the Company. Now I'll ask Mr. Irteza Qureshi who's our CFO to take you through the next two slides of the presentation.

Mr. Irteza Ali Qureshi: Ladies and gentlemen, this is Irteza Qureshi, I am Chief Financial Officer in OGDCL. Turning to slide number 5, during the year under review, persistent slump in international oil prices owing to crude supply glut in the market, continued to influence OGDCL's financial performance. This is evident in the shape of average basket price of crude oil which during the year plunged to US$42.5 per barrel, down 43% from last year which was $74.45 per barrel. This suppressed oil price environment led the Company to report weaker realized prices for crude oil and gas averaging US$ 39.07/barrel and Rs 253.77/Mcf down almost 7%, when compared with US$ 63.29/barrel and Rs 272.61/Mcf, respectively in the preceding year. In addition, the Company's Sales which have been affected by decrease in saleable oil and gas production were partially offset by an increase in exchange rate to Rs 104.56 per US$ from Rs 102.14 per US$ during the comparative period leading the business to register Sales Revenue of Rs 162.867 billion (2014-15: Rs 210.625 billion). The Company registered a Profit after Tax of Rs 59.971 billion translating into Earnings per Share of Rs 13.94. Operating profit margin and net profit margins stood at 39% and 37%, respectively. In addition, the Directors of the Company today approved a final payable cash dividend of Rs 2.00 for the year, taking the total dividend for the year to Rs 5.20 with a dividend payout ratio of 37.3% as against Rs 7.75 dividend in the previous year with a payout last year of about 38.2%.

I will now hand over the presentation to representative of Head of Exploration to continue with this presentation and take you through the next slide.

Khawaja Masood Ahmad: Good day, ladies & gents, this is Khawaja Masood Ahmad and I will be taking you through slide 6 OGDCL carried on its active drilling campaigns to replenish and augment the hydrocarbon reserves and ensure business sustainability. In this pursuit, the Company spud twenty six (26) wells (2014-15: 25 wells) including twelve (12) exploratory/appraisal wells. In addition, drilling and testing of nine (9) wells spud in the previous fiscal year.

OGDCL's aggressive exploratory efforts to locate new hydrocarbon reserves bore fruit during the period under review resulting in six (6) new oil and gas discoveries having cumulative daily production potential of 50 MMcf of gas and 1,500 barrels of oil. These discoveries were made at Thal East-1 &Thal West-1 both in district Sukkur, Aradin-1 in district Khairpur and Bitrism West-1A in district Sanghar, all in the Sindh province in addition to Nashpa X-5 in district Karak, Khyber Pakhtunkhwa province and Chak Naurang South-1 in district Chakwal, Punjab province. During the period under review, exploratory efforts culminated in a Company recorded 2D and 3D seismic data acquisition of 5,336 Line kms (2014-15: 5,430 Line kms) and 3,459 sq. kms (2014-15: 1,918 sq. kms) respectively in various exploratory blocks.

Now Dr. Naseem Ahmad, head of Production will take you through the next couple of slides

Dr. Naseem Ahmad: Hello everyone, this is Naseem Ahmad, Executive Director of Production, Let's move to slide 7. The Company during the period under review added 4,150 barrels per day of crude oil and 43 MMcf per day of gas through addition of new wells Chak 63-3, Chak 2-3, Mela-4, Loti Deep-1, Kunnar-10, Pirkoh-54, Palli-2, Nashpa X-5, Loti-19 & 20, Qadirpur-54 & 55 and Qadirpur HRL-9 & 10. In order to revive and enhance production from its mature wells, OGDCL during the reporting period carried out workover with rig jobs at Kal-3, Missakeswal-3, Sono-7, Pasahki North-1, Nim West-1, Thora Deep-1, Chak 2-2, Kunnar-6 & 8, Rajian 1 & 2 and Thora-1, 3 & 4. Likewise, rig-less workover jobs were carried out at various wells to boost oil and gas production. Moreover, to induce improvement in current well flow parameters, pressure build-up survey jobs were completed at various wells of Qadirpur, Sinjhoro, Kunnar, Kunnar Pasahki Deep, Maru Reti, Uch, Bobi, Chanda, Mela and Nashpa fields.

Going over to slide 8, where you can see the latest status on our various projects under development. OGDCL in line with its business strategy to augment hydrocarbon production and improve operational cash flows continued to make all out efforts for completion of its ongoing development projects including KunnarPasahki Deep-Tando Allah Yar (KPD-TAY), Sinjhoro, Uch-II and Nashpa-Mela. These development projects are of significant importance as substantial improvement in crude oil, gas and LPG production is expected upon completion in the near future.

I now ask Mr. Irteza Ali Qureshi, our CFO to continue with this presentation.

Mr. Irteza Ali Qureshi: I am looking at slide number 9, which shows the graphical illustration of our financial performance. Here, we see a hit in the net sales which was primarily due to decrease in oil prices. The net sales were down by Rs 47.7 billion, of which Rs 43 billion is attributed to the lower prices of oil, gas and LPG for the year. Similarly, the operating expenses were up by almost 4% largely due to increase in salaries and wages, increase in the CSR and increase in depreciation of property plant & equipment. Moving on to exploration and prospecting expense, which has gone up by 25% was mainly due to the increase in prospecting expense largely because of the outsourced seismic activity conducted during this year. The cost of dry and abandoned wells during the year, remained very much in line with the cost in the previous year which was about Rs4.9 billion. However, net profit after tax was down 31%, due to the decrease in the price of crude oil.

Moving onto slide number 10, which states the key performance indicators of the Company. As mentioned earlier, the net sales are down by 22.7% closing at Rs 162.867 billion. The net profit margin has come down to 37% from 41% last year. The Company closed the year with profit after tax of Rs 59.971 billion; and earnings per share at Rs 13.94, down 31% versus prior year and the cumulative dividends per share is Rs 5.20 against Rs 7.75 last year.

To take the presentation to conclusion, I now hand over the presentation back to our MD/CEO, Mr. Zahid Mir.

Mr. Zahid Mir: Thank you very much, we the management is fully focused on achieving consistent growth in production volumes of the Company. We are committed to ensure the speedy development of the projects in the pipeline. As you know, the oil prices are low but we take this as an opportunity to do more. You must have noticed from our report that we have carried out the highest ever acquisition in OGDCL's history and we are planning to beat this during current financial year. We are also drilling more, if you look at the meterage drilled, the total meterage that we have drilled is about 100% more than last year. We are also aggressively planning to achieve production and reserve growth along with maximizing the exploration activities. So ladies and gentlemen, this concludes our presentation for today and I thank you all for joining in the conference call. We now ask the Operator to please conduct a Question and Answer session.

Operator: Thank you gentlemen. If the participants would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. We will now take our first question from Ahmad Hassan from Al Meezan Investment. Please go ahead.

Ahmad Hassan: During the last presentation in February 2016, the Company mentioned 985 MMBOE as 2P reserves and now it has come down to 946 MMBOE. I have two questions, has there been any field reserves which you have written down? My second question is regarding the TFC (Term Finance Certificate) payment that was due in March from Power Holding Pakistan Limited. I just wanted to know have you started receiving the payments for TFC?

Zahid Mir: The reserves we report are reserves as of a certain date. Since we produced around 40,000 barrels of oil per day from these reserves. The reserves figures gets reduced accordingly and we add the newly discovered reserves during the year through exploration activities. So actually, the net change in reserves is the production that has been taken out from the new reserves that has been added into our portfolio.

Now, moving onto your next question, please note that we are constantly in touch with the concerned authorities who have assured that the payments will be made at the earliest. We are following it up with the Ministry of Water and Power and are hopeful of getting the overdue payments in the near future.

Ahmad Hassan: Thank you.

Operator: We will now take our next question from Hussain Raza from Alfalah Securities. Please go ahead.

Hussain Raza: Thank you. This is Hussain from Alfalah Securities. I have a general question. Internationally, oil and gas companies basically cut down their rig operations and explorations due to low international oil prices. But OGDCL on the other hand, is increasing its prospecting expenditure although the oil prices are low. Can you tell me the reason or the rationale behind it?

Zahid Mir: First of all, you need to understand the costs that we incur at OGDCL are on the very low side. If you look on lifting cost, it is around $3.5 per BOE. The total OPEX that we spend on the operating expenses is about $6.5. Secondly, you know about the financial health of the Company is very strong with zero debt. If you look at the total cash equivalent reserves that the company have, it's about $2.5 billion. So we don't have any financial pressure. So, we see this as an opportunity to do more because the cost of everything has gone down. For example, the cost of drilling wells have gone down by about 20% and the cost of acquiring seismic has also gone down by 20%. If you look at the rig rates, these have also gone down from $25,000 / $26,000 per day to about $19,000 per day now. Similarly, the services cost, whether it be cementation or well logging, these are all declined by an average of about 30%. We, the management of OGDCL, see this as an opportunity to do more and to explore more and take advantage of the low cost environment.

Hussain Raza: Okay, thank you. There's one more question. The Company's focus will be on which type of well, like the exploratory well or the development well?

Zahid Mir: Actually both wells are important, the development wells are drilled to exploit the existing reserves. However, exploratory wells are more important in the sense that they replace the reserves. So exploration is the key, and so are the exploratory wells. Both are important in their own respect but for the growth of the Company more focus is on exploration and on exploratory wells.

Husain: Thank you very much.

Operator: We will now take our next question from Ali Asghar from Al Meezan Investment. Please go ahead.

Ali Asghar: Okay. Can you give us a macro view on oil prices for FY '17?

Zahid Mir: Well, if I somehow knew, I could become rich very very quickly. Your guess is as good as mine. Having said that, please know that we do our own in-house assumptions. We assumed that this is a good possibility by the oil price will be somewhere between 50 and 60 in 2017, it may go in the upper 60s in the next 12 months period.

Ali Asghar: Okay, and the other question was that Baker Hughes recently decided that they want to start their operations in Pakistan. So how would the local E&P companies in Pakistan are going to be affected if there is going to be any effect?

Zahid Mir: M/s Baker Hughes is a services provider to E&P sector. It offer various services to E&P sector. Now, the cementing services for example are being offered by Halliburton, by Schlumberger, by Sprint, and there are at least a couple of more companies who are offering these services. So, service wise, you may think that there'll be slightly less competition if the Baker Hughes is not there. The other things Baker Hughes supplies are drilling bits or lines hangers etc. so we don't see any major impact as far as the equipment supply is concerned. On the services side, there might be a slightly less competition but I don't think there will be any impact to us.

Ali Asghar: Okay, thank you.

Operator: Next question for Haider Iqbal from Atlas Asset Management. Please go ahead, your line is open.

Haider Iqbal: My question's been asked. Thanks.

Operator: We now take our next question from Nabeel Khursheed from Topline Securities. Please go ahead.

Nabeel Khursheed: Good evening gentlemen. I have a couple of questions. My question is, when do you expect production from Nashpa 6 and 7 wells to come online and what sort of production levels are we looking at?

Zahid Mir: Nashpa 6 is expected to be tied in by mid-September whereas we should be able to start taking the production from Nashpa well-7 by tomorrow or day after tomorrow.

Operator: We will now take our next question from Fawad Khan from KASB Securities. Please go ahead.

Fawad Khan: Thank you. Good evening. I have two questions. Number one, what kind of CapEx target OGDCL is looking to deliver in 2016-17?

Zahid Mir: Well, the total CapEx that we anticipate spending in our current fiscal year is about $600 million.

Fawad Khan: Okay. And that goes into both exploration and development?

Zahid Mir: Yes, this is correct.

Fawad Khan: And what kind of production growth target is OGDC looking for FY '17?

Zahid Mir: The target is to increase the production by about 10% mainly through coming online of Phase II of KPD/TAY project and Nashpa 6 & 7 wells.

Fawad Khan: Any colours why KPD has been delayed? What's causing the latest delay in the project commissioning?

Zahid Mir: The current status is that the mechanical installation is 100% complete and we are in commissioning phase. It's only a matter of maybe a week or 10 days till we see the second train fully commissioned.

Fawad Khan: Okay, And what about the Zin discovery which was made in 2011? Is OGDC planning to further drill a well in Zin area?

Zahid Mir: Yes, we are planning to develop it further. Currently, deliverability of Zin well is relatively low which is about 5 mmcfd. So, before we decide on the concept of development, we really need to appraise the reservoir first we will be doing two things; we will go bit deeper and also, we will be drilling a horizontal well in the existing structure. Once we get the required information after drilling of these two wells in future, we will then work on development concept for the Zin field.

Fawad Khan: If I may ask one last question what are the drilling targets for the OGDCL in terms of development drilling and exploration drilling for the current year?

Zahid Mir: Well, the number of wells we are targeting this year is 26 which includes 16 exploration wells.

Fawad Khan: Okay. Thank you.

Operator: Thank you. We will now take our next question from Nabeel Khursheed from Topline Securities.

Nabeel Khursheed: Did OGDCL book any portion of revenue on account of higher gas pricing which was part of the supplemental agreement? Did the Company book any amount in the fourth quarter? If not, is the Company expecting any retrospective implication going forward in FY '17?

Zahid Mir: The answer to your first question is no, we have not booked any revenue during the last quarter. The answer to your other query is yes, there'll be a retrospective adjustment and we are waiting for the gas price to be notified.

Nabeel Khursheed: Okay. Thank you. My next question is on your production volume. What trend do you see in production volume growth in FY '17. What sort of addition are we looking at?

Zahid Mir: In FY 17, as I said earlier, we are expecting an increase of 10%. And the 10% will come from two sources, production from Nashpa 6 & 7 wells which has a potential to increase the production by 5,500 barrels plus and about 20 million scf a day. The other is through KPD project coming online. The KPD will add about 4,000 barrels of oil per day. So I mean, you know, if you take out some depletion from other fields, we are expecting an increase of about 10% in oil & gas.

Nabeel Khursheed: Okay. Great. My next question is you have PIBs and it's a sizeable amount, which is going to mature in 2017. So what sort of strategy of OGDCL are we looking at with these funds once they mature?

Zahid Mir: The PIB's are maturing in 2017 and we will have some free cash available to us on their maturing. Also we are currently focusing on exploration and our focus on other opportunities in and outside of Pakistan for acquisition of assets. So these finances could be used accordingly.

Speaker: Just a follow-up question on the retrospective impact of the gas prices under the settlement agreement. I just wanted to be clear that OGDC has not booked revenue based on higher gas prices for the 2012 policy pricing for certain field in FY '16 and OGDC will be booking the impact from first quarter onward as and when the prices are notified. Is that the correct understanding?

Zahid Mir. Yes. That is correct.

Operator: It appears there are no further questions at this time. Mr Mir, I would like to turn the conference back to you for any additional or closing remarks.

Zahid Mir: Thank you very much, everybody. Have a nice day and I hope to see you again in six months' time. Thank you very much.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.