Oil and Gas Development Company Limited

Presentation on Half Year Results FY2011 (July 2010 – December 2010)

Presenters: **Asif S. Sindhu, Executive Director (Finance) & CFO,**
Muhammad Riaz Khan, (GM In charge Production), and
Tariq M. Jaswal, (GM In charge Exploration)

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Time: **5.00 PM (Pakistan Standard Time)**

Operator: Good day ladies and gentlemen and welcome to today's OGDCL Half Year Financial Results for FY2011 (July 2010 - December 2010) Conference Call. For your information this conference is being recorded. At this time, I would like to turn the call over to, Mr. Asif S. Sindhu. Please go ahead.

Asif S. Sindhu: Good evening ladies and gentlemen, my name is Asif Sindhu and I am Chief Financial Officer of Oil & Gas Development Company Limited. I welcome you all to our Half Year 2010-11 Results Announcement Conference Call. I would ask you all to please read the legal disclaimer on page 2 of the presentation before I proceed with the presentation.

Moving on to slide 3, for those of you who have joined us for the first time OGDCL is the largest upstream player in Pakistan. It enjoys the largest share of exploration acreage in the country which stands at 23% of the total awarded acreage. As of June 2010, it holds 47% of the country's recoverable oil reserves and 36% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 56% of Pakistan's oil output and 23% of its gas output.

OGDCL's remaining recoverable reserves estimate, on net basis, as at December 2010 stood at an impressive 953 MMBOE on a 2P basis. The reserves data is based on the latest available third party DeGolver & MacNaughton certified reserves as of December 31 2006 minus the actual net production from January 2007 to December 2010. The additional reserves estimates of new discoveries during January 2007 to December 2010 are not included as they are yet to be certified by the 3rd party reserves evaluation company. The reserves will be revised after receipt of ongoing 3rd party reserves evaluation study by M/s Tracs International of UK by June 2011.

OGDCL has a portfolio of 76 fields out of which 42 fields are 100% owned and operated and 34 are non-operated fields. Our Joint Venture (JV) partners include foreign as well as local E&P companies. We have vast experience in operating in all the four (4) provinces of the country and continue to believe that Balochistan and offshore presents a great opportunity to increase our reserves base.

Moving on to slide 4, this map depicts OGDCL's licences in all the prospective areas of Pakistan. By looking at it you will appreciate that our operations are spread all over the country and in all four provinces of Pakistan.

Looking now at slide 5, which gives a snapshot of the latest operational and financial performance. I am pleased to inform you that net sales rose by 11.6% to Rs 81.090 billion from Rs 72.633 billion during the same period last year. This increase is mainly due to a combination of higher realized prices of oil and gas and a favourable financial impact of Rs 2.786 billion on account of gas price revision in respect of Bobi field with effect from January 2007. Operating profit margin and net profit margin also showed an increasing trend of 62% and 39% respectively as compared to the same period last year. The Earnings per share of the company has also registered a gain of 0.73 Rs / share when compared to the same period last year.

On the production volume side, OGDCL witnessed a 2.3% increase in its net gas production, however, it registered a decline of 4.7% in its crude oil production when compared to the same period last year. Average net realized price for the natural gas sold was Rs 215.95/Mcf compared to Rs 177.09/Mcf during the same period last year. Average net realised price for the crude oil sold was US$66.08/barrel compared to US$59.72/barrel during the same period last year. OGDCL was able to spud seven (07) wells during the Half Year 2010-11 with a break-up of two (02) exploratory/appraisal wells and five (05) development wells.

I would now request Mr. Riaz Khan, General Manager Incharge of Production to continue this presentation and take you through the next slide.

Riaz Khan: Good evening ladies and gentlemen. OGDCL's net gas production increased by 2.3% during the period under review when compared with the corresponding period last year. This is a result of a decrease of 4.83% from its 100% owned and operated JV fields (mainly due to decrease in production from Qadirpur, Mela, Chanda, Nandpur and Dakhni fields) and an increase of 25.42% volumes from our non-operated JVs. Spike in gas production from Bobi and Uch and production startup from Nashpa, Pakhro, Gopang and Sheikhan fields partially offset the impact of operated production losses.

During July – December 2010, OGDCL's crude oil production from 100% owned and operated joint venture fields declined by approximately 7.50% mainly from Pasakhi, Sono, Bobi, Tando Alam and Kunnar fields due to natural depletion and from Chanda and Mela on account of heavy floods. However, start of production from Nashpa, Baloch and bolstered production from Rajian and Kal fields mitigated the impact of production loss. Crude oil production from non-operated JV fields increased by 11.7% resulting into a net decrease in crude oil production of 4.7%.

LPG production during the year saw a decline of 2.5% mainly due to water break-through at Dhodak field and operational problems at Bobi Plant.

Now moving on to the next slide, which pertains to OGDCL's projects.

Sinjhoro Development Project: OGDCL's management has decided to develop the field on its own by relocating Dhodak plant to Sinjhoro. The project is expected to be completed by August 2011 adding 3,000-3,500 bopd oil, 25-30 MMcfd of gas and 120-140 M.Tons/day of LPG.

KPD-TAY Joint Development Project: The tender notice for hiring of EPCC contractor for KPD-TAY project was press advertised on 14th July 2010 with bids submission date 23rd December 2010. Bids were received from various companies and were opened on 23rd December 2010. Technical evaluation is in progress. The project is expected to be completed by September 2012 and the expected production from the project will be 284 MMcfd of Gas, 4,400 Bopd of Oil, 387 M.Tons/day of LPG and 400 Bopd of NGL.

Dakhni Development Project: The project is in process of completion by October-November 2011. Complete delivery of the (Sulphur Recovery Unit) SRU was received at site in February/March 2010. All other equipment packages have been received / installed at site. The incremental production after this expansion will consist of sales gas 12 MMcfd, condensate 720 bopd, sulphur 80 M.Tons/day and LPG 12 M.Tons/day.

UCH-II Development Project: The bids were submitted on 29th November against the tender for design engineering, procurement, construction, installation, pre-commissioning and commissioning. Financial Bids for the technically qualified bidders were opened on 26th January 2011. Financial evaluation is currently in progress. A gas sale agreement has been signed between OGDCL and (Uch Power Limited) UPL on January 20, 2011. Six wells have so far been drilled while two wells are under completion. The expected completion period of the project is 18 months after award of the contract. After completion of the project the sale gas will be enhanced from 250 MMcfd to 410 MMcfd.

Jhal Magsi Project: The tender notice was issued in the press on 22nd July 2010 for pre-bid meeting. Bids were submitted /opened on 09 December 2010. Technical evaluation is in progress and the award of EPCC contract is likely to be made in March 2011. The project is expected to be completed by March 2012 and will produce 15 MMcfd of gas.

Qadirpur Compression Project: Fourteen (14) reciprocating compressors have successfully been installed and commissioned. Performance tests shall be carried out by the mid of March 2011.

Now I request Mr. Tariq M. Jaswal, General Manager Incharge of Exploration to take you through slide 8.

Tariq Jaswal: Hi, this is Tariq Jaswal. I am Head of OGDCL's Exploration Department. I will take you through slide number 8. During half year 2010-11, OGDCL marked 24 well locations and spudded two (02) new exploratory/appraisal wells namely Sehar-1 & Nashpa 2 and five (05) development wells namely Qadirpur-41, Thora-8, Uch 23, 24, and 29. Moreover, another development well Uch 31 has also been spudded on 27th January 2011. In addition, drilling / testing of 13 ongoing wells from the previous financial year are also in progress. During the period under review, workover jobs on Toot-12 and Lashari-5 have been successfully completed and resulted in revival of production of 1,100 bopd. Workover jobs on Kal-2 & Missakeswal-2 wells are in progress.

As at December 31 2010, OGDCL operated in 35 exploration blocks which includes 22 blocks with 100% share and 13 blocks as operated JVs including three offshore blocks, covering an area of 63,581 square kilometres. OGDCL could not start operations in ten (10) exploration blocks due to non-availability of security clearance and security cover from the concerned authorities. Security clearance in Zin block (covering an area of 5,559.74 Sq. Kms) has been granted and civil work on marked well location (Zin X-1) has been completed.

During the period under review OGDCL discovered two (02) new oil/gas condensate fields namely Sheikhan-1 in Kohat E.L in district Kohat of Khyber Pukhtoonkhawa Province and Gopang well-1 in Nim E.L in District Hyderabad of Sindh Province. OGDCL acquired 576 linear kilometres of 2-D seismic survey and 116 square kilometres of 3-D seismic survey during the first half of the fiscal year 2010-11. OGDCL is also open to any potential overseas joint venture opportunities. Our targeted areas of interest are West Africa and CIS countries.

Now I hand over the rest of the presentation back to our CFO Mr. Asif S. Sindhu to take the presentation to the conclusion. Thank you.

Asif S. Sindhu: Thank you. **Moving on to slide number 9** which provides a quick glance of our financial performance indicators. OGDCL continued to deliver strong operating performance and completed the first half of the year with improved financial results. The Company's sales revenue increased by 11.6% to Rs 81.090 billion as compared to Rs 72.633 billion in the same period last year. This increase is mainly due to a combination of higher realized prices of crude, oil, gas, LPG & Sulphur, higher sales volume of gas and favourable financial impact on account of gas price revision in respect of Bobi field with effect from 01 January 2007.

We experienced an increasing trend with regard to operating expenses as compared to the corresponding period last year. This is an industry-wide phenomenon. More specifically, operating expenses were higher due to more annual turnarounds (ATA) during the period, repair and relocation of various pipelines and idle rig operations during massive floods in the country in July 2010.

Exploration and prospecting expenditure declined by 25.1% mainly due to the decrease in cost of wells charged as dry holes. The number of dry wells remained the same (06 wells in both periods). Profit after taxation was Rs 31.598 billion compared to Rs 28.493 billion in the corresponding period of last year resulting in an increase in earnings per share to Rs 7.35 as against Rs 6.62 last year.

By looking on to slide 10, you can see this slide displays a healthy financial snapshot of the company. As you would see here, we have been able to improve on all our key performance indicators when compared with the corresponding period last year.

Moving on to slide 11, the main focus of the management's attention is the consistent growth in production volume of the Company which in turn will help us maintain a healthy balance sheet. The Company is committed to ensure speedy development of our projects in the pipeline. OGDCL is also committed to implementation of international best practices across all our operations. We are targeting ourselves to becoming the best corporate citizen not only in Pakistan but also in the region.

This basically concludes our presentation today and I thank you all for joining in. We are now ready to take any questions that you may have.

Operator: Thank you very much. Ladies and gentlemen, if you would like to ask a question over the telephone at this time please press asterisk key followed by digit 1 on your telephone keypad. Please also ensure that the mute function on your telephone is switched off to allow your signal to reach us.

Our first question for today comes from Nauman Khan from Topline Securities. Please go ahead.

Nauman Khan: Good evening. My question is about OGDCL's net receivables, what we can analyze from the financial report is that OGDCL is holding back dividend to around Rs. 6.5 billion and royalty payments to Rs. 14.2 billion. Is that a deliberate strategy on part of the OGDCL management to hold back payments in order to curtail the circular debt?

Asif S. Sindhu: As you are aware circular debt is an industry-wide issue and it is impacting OGDCL more than it does to other companies. As of today, our total receivables are in the range of Rs 110 billion. We do not have a deliberate strategy of holding back. As far as the dividend is concerned, it was paid on the due date which is 45 working days after the book closure. The royalty payments are being slightly delayed because of operational reasons but are paid as and when we can.

Nauman Khan: My other question is that what are the efforts the Government is making to curtail the circular debt or are you in negotiation with the Government? PSO is very active, very vocal about it, so is OGDCL doing the same thing? Do you have a strategy of how to curtail the circular debt?

Asif S. Sindhu: Yes, we are in regular contact with the Government, in fact, we attended a meeting which was chaired by the Finance Minister last week. I think it is a complex problem. As of date, the total circular debt of the industry is estimated at anywhere between Rs 250-350 billion and obviously it's not possible for the Government to cover this kind of money from its own sources. What I understand is for the time being they have agreed upon the release of Rs 30 billion that will be paid to PSO. And, it should have a trickle down effect; as when we say it will be paid to PSO it should come down to the refineries and from the refineries to us. The Government can't pay us directly. The Government has promised that another Rs 30 billion would be paid in the next quarter as well. PSO's issue is slightly different from us because they import oil and they have to retire their Letter of Credits (LCs), so the Government's strategy is that PSO should not default on its obligations. Although the Government is taking the necessary steps we feel that these are not enough and with the increase in international oil prices the circular debt situation is going to get worse in the near future.

Nauman Khan: My question then is if this circular debt issue continues, what will be the method for financing future development programmes for OGDCL? If more of your cash is being held up that means you need to devise an alternative. How about the convertible bonds, is that an option?

Asif S. Sindhu: Convertible bonds are an option, however, the matter is currently with the Cabinet Committee on Privatisation which has constituted a sub-committee to actually look into whether the Government go for a convertible bond or an exchangeable bond, if it is a convertible bond then obviously it is an OGDCL decision because the issuer would be OGDCL. If it is an exchangeable bond it is the Government of Pakistan who would be the issuer. We are waiting for the Government's decision on this. We will abide by whatever decision the Government takes. To answer the other part of the question, obviously if the circular debt situation is not resolved we will have to look at options of project financing because we have some major projects lined up.

Nauman Khan: Ok, thank you.

Operator: Our next question of today comes from Azfer Naseem from Elixir Securities. Please go ahead.

Azfer Naseem: My first question pertains to tax rate. Your realized tax rate averaged 45% during the second quarter. Can you explain the reasons behind it?

Asif S. Sindhu: I would request our Tax manager Mr. Tariq Mehmood to answer this question.

Tariq Mehmood: Increase in total taxation has resulted due to increase in deferred tax component of tax charge for the quarter. Said increase is attributable to the reason that, earlier, the claim against Provision for Decommissioning Cost was not allowed by the tax authorities, but at present, by virtue of a change in tax laws, amortization for Decommissioning cost has become admissible for charge over a period of ten years or life of the asset whichever is less. Before incorporating the effect of said change in the working of deferred tax, the tax base/ tax value of Decommissioning Cost (current carrying value of Rs 13.240 billion) was being taken at zero due to its inadmissibility. This resulted in creation of a deferred tax asset with a corresponding decrease in deferred tax liability. However, after the above referred change in tax law, the tax base of amortization for Decommissioning Cost that was being taken at zero is now being taken at its un-amortized value. Accordingly, the aforementioned deferred tax asset has reduced by Rs 3.30 billion approx. This in turn has increased the deferred tax liability by the same amount. Ignoring of this component of Rs 3.30 billion the tax charge will stand at Rs 8.845 billion at an effective rate of 32.7%.

Azfer Naseem: Can you explain the phenomenon of provisions being allowed as a reduction?

Tariq Mehmood: If you look at the schedule, there is a change of Clause 4 which allows the amortization of decommissioning costs over a period of 10 years of the life of the asset, whichever is less. So that creates a tax base value of decommissioning costs which was zero. Of course, we had no chance to claim it through taxation so long as we don't actually incur these costs.

Azfer Naseem: My second question pertains to your sulphur sales of the second quarter clocked in at Rs. 455 million which is higher than the amount reported in FY09 and FY10, so what were the reasons behind it?

Asif S. Sindhu: It is basically a by-product of the processes and it's not even 1% of our sales revenue. The realized price of sulphur has increased from Rs 7,296/M.Ton to Rs. 20,409/M.Ton and the quantity sold has also jumped by 48% from 13,018 M.Tons to 19,281 M.Tons.

Azfer Naseem: The third question again relates to a small net debt which now appears in your financials that is a discount on crude oil price. It is a small amount of Rs 90 million, it wasn't there in the old financials so if possible could you elaborate on it or otherwise include it into the explanation in the transcript as well.

Asif S. Sindhu: The amount of Rs 90 million refers to the discount demanded by Government of Pakistan on Dhodak condensate used in production of white petroleum products i-e Naphtha, High Speed Diesel & Kerosene.

Azfer Naseem: That is all from my side. Thank you.

Operator: Our next question for today comes from Hamad Aslam from BMA Capital. Please go ahead.

Hamad Aslam: Good evening everyone. I just have a very basic question. The convertible / exchangeable bonds that the Privatisation Commission is talking about basically aimed to bridge the fiscal deficit that the Government is currently running. So does that mean that if any of the E&P companies, like OGDCL, goes ahead with one of these bonds then we can expect a significant chunk of payment in the form of dividend to the Government of Pakistan, because without that the bond will itself not bridge the facility that the Government is facing.

Asif S. Sindhu: What we have recommended to the Government is that if the money is for bridging the fiscal deficit then it is advisable for the Government to do an exchangeable bond. Doing a convertible bond and then dishing out a dividend to the Government, I don't think that will fly with the international investors because when you issue bonds you also have to explain with good reasoning what this money is going to be used for. I don't think that would be good for the reputation of the Government if it does that. I believe an exchangeable bond in that case would be a more feasible option.

Hamad Aslam: With regards to the tax issue, I believe the earlier discussion on the decommission costs is related to the fiscal year 2011 budget that came out and brought with it some variations and some changes in the different taxation laws, so from that perspective can we expect that there will be a benefit that OGDCL will be getting going forward because now it is an expense that is raised, it was not a taxable expense earlier, this is my understanding. Is that correct?

Tariq Mehmood: That is correct. With the passage of time once we shall be getting this, the tax base will be increasing year after year.

Hamad Aslam: Despite the fact that OGDCL was not getting any tax benefit in terms of tax deductible expense but the Company was still booking different tax assets on account. Is that also right?

Tariq Mehmood: That's correct. The concept behind that was we actually incurred these costs, so we will get that tax benefit at that time.

Hamad Aslam: Alright. That's it from my side.

Operator: Once again ladies and gentlemen if you would like to ask a question over the telephone please press *1 on your telephone keypad. Our next question for today comes from Salman Vidhani from Habib Metropolitan Financial Services. Please go ahead.

Salman Vidhani: Hello. My question is regarding the penal mark-up on outstanding receivables. Is there any amount that you have not booked but you are recording it?

Asif S. Sindhu: Are you talking about the late payment surcharge on the overdue receivables?

Salman Vidhani: Exactly.

Asif S. Sindhu: Yes. We are not booking that, however, we do send invoices to our customers and to-date we have sent invoices of around Rs 13 billion on account of late payment surcharges. But we have not booked these so in the worst case if we don't receive this there will not be any charge to the profit and loss account.

Salman Vidhani: Since it's a sizeable amount do you see any possibility of realizing this amount?

Asif S. Sindhu: We are certainly pushing for it. However, our foremost objective is to get our principal back and then we'll fight the other battles after that.

Salman Vidhani: Ok. Can you also give us a break-up of your receivables between distribution companies and refineries?

Asif S. Sindhu: At the moment (end Feb) about Rs 42 billion is receivables from the two gas companies, Sui Southern and Northern; and about Rs 62 billion from the five refineries. In addition to that there are other smaller parties like UCH Power, KESC, FKPCL, etc.

Salman Vidhani: Ok. Can you also give us the break-up of your exploration costs during the second quarter?

Asif S. Sindhu: The exploratory cost of Rs 1.004 billion in the second quarter mainly pertains to dry and abandon wells cost and prospecting expenditure which stands at Rs 547.271 million and Rs 456.90 million respectively.

Salman Vidhani: Ok. Regarding Tal Block, would you be able to give us any guidance when the production will recommence?

Riaz Khan: The production from Tal Block (Maramzai well) is dependent on the security situation. We are hoping and the operator (MOL) is in consultation with the provincial law enforcement agencies to normalize the situation and get sufficient security so that the production from the well is resumed at the earliest. At this point in time, no timeline can be given.

Salman Vidhani: Ok. Thank you so much.

Operator: Our next question for today comes from Raza Rawjani from Credit Suisse. Please go ahead.

Raza Rawjani: Good evening Sir. Given the new information on tax rates and your exploration expenditure and everything, what do you think your tax rate would be going forward in the next 1-2 years? What would be a fair assumption for the tax rate?

Tariq Mehmood: The tax figures do look quite high, as I explained earlier there is an impact of 3.3 billion in separate taxation. Once we compare this figure with the reserves, the impact is high for that particular quarter because of the parity between the tax and the principal, the core tax profit for the quarter is around 27 billion. So that's why you'll find it as high as 45% and in the coming years again when the tax base will continue to decrease, the tax effect will again increase. The tax rate will certainly come down to around 32-33%.

Raza Rawjani: This means that for the next two quarters the tax rate would be around 32-33%and the next year as well?

Tariq Mehmood: You know that since during the current period we have taken into effect this change of 3.3 billion, so all of a sudden it will not come down to this 32-33%, but gradually it will come down.

Raza Rawjani: Ok. My next question is about the exploration programme. For the remaining of the year what exploration targets are you looking at?

Tariq Jaswal: We have already marked locations of 26 wells on the ground. Our rigs are occupied at the moment and soon they will be available and we will be able to pursue our targets accordingly. There were some shortcomings in our seismic acquisition because of the floods and security problems, however, the activities are picking up and we will do better in the rest of this year. Considering the adverse effect of security situation in various pats where we are operating and the negative impact of floods of July 2010, we are gearing to come as close as possible to our exploration targets for the rest of the period in this year.

Raza Rawjani: My last question is on your production. What production estimates are you modelling into your accounts for the next two quarters and the next year?

Riaz Khan: It will be averaging around 38,000 bpd for oil, and for gas it will be about 980 MMcfd for the year.

Asif S. Sindhu: We will take one last question.

Operator: Our last question for today comes from Syeda Rizvi from Global Securities. Please go ahead.

Syeda Rizvi: Hi. Could you give us an indication for your capital expenditure targets for the remainder of the year? If you can give us an indication towards the capital expenditure for the remainder of the year and whether you intend on meeting that target or whether it's going to be undershot?

Asif S. Sindhu: We will not be able to meet our capital expenditure budget for this year and that is primarily due to our projects which have been slightly delayed. The major projects of which you are aware of are UCH II and KPD-TAY projects. We expect to award these contracts to the EPCC contractors some time in April this year and so there will be a spill over that will go into the next financial year.

Syeda Rizvi: I see. Thank you very much.

Asif S. Sindhu: Thank you very much all for joining this conference. As I mentioned earlier if you have any further questions please send an email to Mr. Usman Bajwa, our Investor Relations Officer. Thank you. We will now conclude the call.

Operator: Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation, you may now disconnect.