

Oil and Gas Development Company Limited

CONFERENCE CALL ON RESULTS FY 2008

Presenters: Mr Zahid Hussain & Mr Aftab Ahmad

Wednesday, 20th August 2008

17 00 hrs (Pakistan Standard Time)

Operator: Good day, ladies and gentlemen, and welcome to today's Full Year Results (July 2007 to June 2008) conference call. For your information, this call is being recorded. I would now like to turn the call over to your hosts today, Mr Zahid Hussain, CEO and Mr Aftab Ahmed, CFO of OGDCL. Please go ahead, gentlemen.

Mr. Zahid Hussain: Ladies and gentlemen, good afternoon. My name is Zahid Hussain. I am the Chief Executive and Managing Director for Oil and Gas Development Company Limited, Pakistan. I welcome you all to our presentation on OGDCL's full year 2007/08 financial results. Moving to slide 2, I don't propose to read the disclaimer on the page, however, I would ask all of you to please take a moment to read the same.

Switching to the next slide, I would first like to talk a little about the company for those of you who are less familiar with our operations. OGDCL is the largest upstream player in Pakistan. It enjoys the largest share of exploration acreage in the country. It now holds 46% of the country's recoverable oil reserves and 34% of the country's recoverable gas reserves. In terms of production, currently, it produces some 62% of the country's oil output and at the moment 25% of the country's gas output.

Our reserves, as estimated by D&M of Canada, as of December 2006, stand at an impressive 1.2 billion boe on 2P basis. This does not include the new discoveries that we have since made. The next reserves evaluation by an independent third party is expected by June 2009.

OGDCL, with its in depth understanding of Pakistan's geology, is very well positioned to capitalise on significant upside geological potential. The map on the left portion of this slide illustrates the main areas where our key assets are located. By looking at the map, you will also see that we are present in all four provinces of Pakistan. We currently have a portfolio of 103 fields consisting of our 100% Owned, Operated as well as Non-Operated fields. We control and operate a major portion of our production from these fields. We also have joint venture contracts with other E&P international companies operating in Pakistan, such as OMV, ENI, MOL, BP, Shell, etc., along with our working interest in joint ventures with domestic E&P players.

We believe that Baluchistan and offshore represents a source of significant geological potential, even though our recent efforts in case of Anne-1X was not fruitful in terms of dollars and cents. But it has given the company insight of valuable knowledge on the geology and the play concept of the area.

OGDCL signed a cross-assignment agreement in offshore blocks with BP. OGDCL offshore blocks involve Offshore S and Offshore G whereas BP's Offshore blocks are U, V and W.

Now, we move to the next slide which shows a summary of our performance for the year on Consolidated basis. I am pleased to inform you that on consolidated basis, net sales rose by 25% to approx. Rs 126 billion against approx. Rs 101 billion in financial year 2007. This increase in sale revenue is due to both the volume growth and the high realised prices of oil, with respective contributions of around 4% and 21%. Operating Profit Margin and Net Profit Margin also showed an increasing trend compared to FY 2007. Earnings Per Share increased significantly to Rs 12.41 as against Rs 10.52 in the last year.

Average net realised crude oil prices saw a substantial increase of USD 71.29 from last years value of USD 51.86. However, the average net realised gas price slightly dipped from last year's price of USD 142.73 to USD 140.88 MMcf due to the dip in wellhead price notified by OGRA.

OGDCL was able to spud 31 wells in the year 2008, which is almost half the number of total wells drilled in the country.

Ladies and gentlemen, the next slide mentions the same numbers on OGDCL-only basis which show a similar trend. I will now request Mr Aftab Ahmad, our Chief Financial Officer, to take you through the next few slides.

Mr Aftab Ahmad: Hello, everybody. We'll now move on to slide 6 and will go through the operational update. During year 2007/08, crude oil production, on gross basis, grew by 13.9% from our 100% Owned fields and Operated joint venture fields over the previous year, mainly due to start of production from Mela-2, Chanda-2, Pasakhi North East, Moolan North-1 and Chak-6 NE-1, in addition to increase in production from Kunnar, Bobi, Rajian, Dakhni and Tando Alam fields. Share of production from Non-Operated joint venture fields, however, decreased by 17.1%, resulting in a net increase in crude oil production of 4.7% over the last year.

OGDCL's gas production from its 100% Owned fields and Operated JV fields, on gross basis, increased by 6.1%, including production from our subsidiary company, PGCL. This increase is mainly due to enhanced production from Dakhni, Loti, Uch, Bobi and Qadirpur fields, and start of gas production from Mela field. Share of gas production from Non-Operated JV fields decreased by 5.6%, resulting in a net increase in company's gas production by 3.1% over the previous year.

LPG net production decreased by 12% during the period compared to the same period last year. This is essentially due to the decline in production from Dhodak field. As you might be aware that our development plans for the Tando Allah Yar and Sinjhor fields were put on hold due to a contractual dispute, the matter is still *sub judice*; however, maximum efforts are being utilised to resolve the issue as soon as possible, and we will inform all our stakeholders as soon as the same gets resolved.

Our Capacity Enhancement Project in Qadirpur plant is expected to result in a further 100 MMscfd gas production coming on stream in later part of the current year. We are also working on a fast-track basis on the joint development of our recent discoveries in Kunnar Deep and Pasakhi Deep fields. We expect that by end of year 2009, this project will add approximately 250 MMscfd of gas and 3,200 Bpd of condensate along with 250 Metric Tonnes of LPG.

We have experienced an unexpected decline in production from our Dhodak field which has resulted in a drop in production. Remedial jobs are being undertaken to arrest the water encroachment problem. Dhodak Deep well was successfully tested at around 5-6 MMscfd and upon completion is expected to further improve the production of gas.

We remain on target to achieve a double-digit compound annual growth rate of 9-10% for both oil and gas for the next three years.

Moving on the next slide, which is slide 7, titled 'Exploration and Development Activity'. During financial year 2007/08, the Company spudded 31 wells including 13 exploratory/appraisal and 18 development wells. We'll like to remind you that in the last year, 2006/07, OGDCL spudded a total of 41 wells.

In order to achieve our aggressive exploration and prospecting targets, the company was able to acquire two more exploration blocks, bringing the total number of exploration blocks to 44. Five new discoveries (Moolan-1, Moolan North-1, Pasakhi East-1, Pakhro-1 and Dhodak Deep-1) were made during the year 2007/8. These newly discovered fields have been tested to produce about 1,150 barrels per day of crude oil and 593 barrels per day of condensate, along with 46 MMscfd of gas.

During FY 2008, we achieved 2,889 line km of 2D and 1,067 square km 3D seismic during the period under review. OGDCL-financed Basin Study project has been completed; all eight phases are in the process of final report making, which is expected to be available by the end of this year. The study will throw light on new hydrocarbon-bearing basins in Pakistan.

Our participation in the fourth bid round of Libya during November 2007 was in line with our efforts to getting our feet wet and learning overseas experience. OGDCL is exploring various exploration opportunities focused primarily on North Africa, South East Asia and Central Asian states.

Moving on to the next slide, our Net Sales have improved appreciably when compared with the same period last year. We have successfully managed to keep our operating expenses in check, which have though increased slightly. Our focus has been to grow without sacrificing our profitability and as you can see, we have been able to improve our profitability from where we stood last year. We expect our consistent and

targeted spending in exploration and prospecting will bear fruit in terms of addition of hydrocarbon assets and reserves in the near future.

Net Profit After Tax (NPAT) saw a slight decline due to the provisioning related to deferred taxes and earlier reported contingent liability of taxes during the year. Deferred tax liability is around Rs 4.5 billion and the contingent liability is approximately Rs 9 billion.

We will now move on to the next slide, which is on the Group financials. This slide depicts a healthy financial snapshot of our company. As you will see here, we have been able to substantially improve our Net Sales, Profit After Tax, EPS and profit generated from operating activities compared to the last year. Our Net Profit Margin has decreased, mainly due to provision for deferred tax liability on account of increased exploration and development expenditure and the contingent liability which we had shown in the balance sheet last Quarter.

Other impact was due to the fact that we booked Royalty on both condensate and LPG from the date of inception to June 2008, which we have also shared with you in the last quarterly results. We have also booked the outstanding liability regarding royalty for Uch gas field.

We will now move on to the next slide, this essentially gives the same information as appearing in the last slide but on OGDCL-Only basis. I would now request Mr Zahid Hussain to take the presentation to the conclusion. Thank you very much for your patient listening.

Mr Zahid Hussain: Thank you, Mr Aftab. Hello everybody, this is Zahid Hussain again. I hope that details provided by our CFO will be of interest to you and help develop understanding of our financials.

Looking at the future, I would like to emphasize that our key business strategy going forward is the delivery of sustained production growth whilst keeping a check on costs. We will look to further exploit our exploration and drilling expertise and expand our exploration blocks offshore. We'll also look to access potential international opportunities on a case-by-case basis. We will continue to evaluate opportunities based strictly on the economic fundamentals, ensuring maximisation of returns.

Finally, we have committed to the implementation of international best practices across all our operations; including adhering to international standards of corporate governance and minimising our operational impacts on the environment.

Ladies and gentlemen, that basically concludes our presentation for today, and I thank you all for joining in.

Mr Aftab Ahmad: Ladies and gentlemen, we will now be open for question and answer session. We'll request the operator, Sarah, to conduct the Q&A please.

Operator: Thank you, gentlemen. The question and answer session will be conducted electronically. If you would like to ask a question, please press the star or asterisk key followed by the digit one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered, you may remove yourself by pressing *2. Once again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions.

We shall now take our first question from Asim Wahab of Foundation Securities. Please go ahead.

Asim Wahab: Thank you for the presentation, sir. I have three questions. My first question is that when do you expect the discount issue of Qadirpur field to be resolved? Will it be resolved within this quarter or will there be further delays? So could you elaborate in detail that at what stage does the Qadirpur issue stand at the moment? Thank you.

Mr Aftab Ahmad: Well, honestly speaking, we have very little to offer from what we updated you during the last session. We have put to the Government of Pakistan and the DG(Gas) Office certain proposals which are under active review, and we, from our perspective, would have liked to have solved it on yesterday basis on behalf of Qadirpur Joint Venture. We expect that hopefully in the next quarter, it will be settled and starting January 1 2009, expectations are that we will have a good price for Qadirpur gas.

Asim Wahab: Okay, my second question is regarding the additional taxes booked by the company of around Rs 2 billion in third quarter of current fiscal year on account of decommissioning and depletion allowance issue. Higher tax rate in this quarter also suggests the company has again booked some additional taxes in this regard, so what is that amount and what is the amount of total additional taxes booked and how much more taxes will the company have to pay if the Income Tax Tribunal gets their decision against the company?

Mr Aftab Ahmad: We elaborated last quarter as well that there will be no cash impact because all these taxes have been paid or adjusted. We just have to record it in the P&L accounts. Whatever was known on this account of depletion, decommissioning, that has been booked during this year. There is no outstanding liability as of this date which is unbooked. If there is an exposure for the year next year, we'll cater for that in the next year accounts.

Asim Wahab: Thank you, and my last question is regarding the additional royalty on Uch field which the Balochistan Government has demanded. What is the lump sum amount of royalty paid for the prior years and the per

annum amount to be paid going forward and is the Government willing to pay the royalty on its own or will it have to be paid by the company, OGDCL?

Mr Aftab Ahmad: All hydrocarbon sales are subject to certain royalty mechanism. If you have got some idea of Uch pricing then you know our point of view was that we will just be subjected to royalty on the value of gas being sold, and other price components should not be subjected to royalty. However, Government has got different views. The matter was taken all the way up to the Minister of Law and Parliamentary Affairs and he, after looking at all the different aspects and after hearing the company and the Baluchistan Government and the Ministry, decided that Uch should be treated as other fields and we should be subjected to royalty on the gross receipts i.e. on all the gas price components.

So the issue now stands resolved and from now on there will be royalty payments on annualized basis; please note all past payments up to the 30 June 2008 have now been settled. If you really want to know about the components which relates to prior years, it is around Rs 2.7 billion. Whereas around Rs 0.3 billion relates to next year and thus was billed as advance royalty so in total we paid Rs 3 billion up to 30 June 2008.

Asim Wahab: And going forward?

Mr Aftab Ahmad: Going forward, you know, it will be normal royalty payments and we'll pay as we pay other fees or levies. What I would like to submit that we pay royalty to the Government of Pakistan which goes to the divisible pool and Government of Pakistan then distributes royalty to the different provinces, and the same mechanism will be used for Uch royalty.

Asim Wahab: Thank you that will be all.

Mr Aftab Ahmad: Thank you.

Operator: Thank you. We will take our next question from Prashant Gokhale of Credit Suisse. Please go ahead.

Prashant Gokhale: Yes, good afternoon. This is Prashant Gokhale from Credit Suisse in Hong Kong. Thank you for the presentation. I just had a few questions and if you can just maybe help me understand. You know, I was looking at your results, the standalone company and the consolidated company, and there's a Rs 5 billion difference in the profit and I kind of brought it down to the dividend booked in the standalone company from a wholly owned subsidiary. But you know when you consolidate it, where does that go because it will presumably show up in a higher sales revenue number if you're consolidating it line by line. So I'm just wondering where that went because the sales revenue numbers are not very different and neither is the operating profit.

Mr Aftab Ahmad: Normally when you do the P&L consolidation it's just simple addition of numbers. There's no other mechanism. So on consolidation of subsidiary company accounts to the parent company dividend paid out of subsidiary just got offsetted. That's why you don't see that number.

Prashant Gokhale: Right, but when you consolidate that, I'm assuming that in a standalone company the wholly owned subsidiary is not consolidated, so you are booking dividend income. But when you consolidate it, you should have higher revenues, right?

Mr Aftab Ahmad: Yes, but the reason you don't see that higher revenue on consolidation is because there was operating loss in the subsidiary company, so you don't see the revenue going up.

Prashant Gokhale: But you still had a dividend, positive dividend?

Mr Aftab Ahmad: Yes, since we were trying to merge the two companies so we decided to pay out the dividend to OGDCL. The cut-off date for merger has been set as 30 June 2008.

Prashant Gokhale: Understood. So the other thing is that I noticed that your volume growth for oil and gas are tracking below your targets that you had highlighted during the time of the ADR, the GDR issue. I'm just wondering how you see that going forward and what the trend is likely to be. How do you expect that number to move, both on the oil side and on the gas side?

Mr Aftab Ahmad: If you just look at the fields which we are responsible for, the oil has grown by 13.9%; and if you just take JV share out of that, the value comes down towards 9.7%. But it's our share out of the non-operated JVs which has gone down as compared to what were projected by the Operators, which brought it further down to 4.7%, however based on our plans and the discoveries we have made and the projects in the pipeline expecting these projects probably will be all completed soon, we still are focused to grow about 9-10%.

Prashant Gokhale: And sir, when you say 9-10% are you saying that your own fields and share in operated JVs will grow at 9% and you're not sure what will happen to the rest of the number, or the share of non-operated JVs should stabilise going forward?

Mr Aftab Ahmad: Our target is to achieve the 9% growth inclusive of our share from the non-operated JVs. But you see, we do not have any direct control on the non-operated joint ventures. You will appreciate we can always control our own fields.

Prashant Gokhale: Sure.

Mr Aftab Ahmad: Had we not gone under on one of our fields, in Dhodak where we have got a hit i.e., we have seen unexpected water encroachment; had that not happened we could have slightly bettered that number.

Prashant Gokhale: So has Dhodak now stabilised in the last couple of months? Have you seen a stabilisation in production or not yet?

Mr Aftab Ahmad: We have restricted the water encroachment to some extent once we get some production from the Dhodak Deep, we will be in a position to bring the production slightly above the volumes we are producing right now and then try to stabilise.

Prashant Gokhale: Okay, all right. Then finally in terms of exploration success, would you be able to give us some numbers on what kind of reserve replacement you had this year?

Mr Aftab Ahmad: On a year-to-year basis very difficult, however if you look at the last five years, it has been on a one-is to-one basis. Meaning whatever we produced has been replaced. The last year was pretty good too.

Prashant Gokhale: The last year was in fact much better than one-to-one, so presumably this year would it be lower than that or?

Mr Aftab Ahmad: This year is low, however if you look at it over five year's time horizon, it's one-to-one.

Prashant Gokhale: Sure.

Mr Aftab Ahmad: As I said earlier reserve replacement on five year time horizon is currently one-to-one, however you will appreciate it can go up and down between years.

Prashant Gokhale: Absolutely. Sir, in terms of the billing programme and in terms of what you did in FY08, would you be able to tell me how many exploration wells you drilled this year, how many wildcats and what's the plan going forward?

Mr Aftab Ahmad: We have drilled 31 this year, our target was to drill 34 plus 7 plus 9 and let me tell you the significance of +7 and +9 wells. +9 wells were subject to security clearance for areas other than Uch, whereas +7 wells were for Uch field which were though subject to security but relatively secure as compared to +9 wells relating to other fields. We could not get clearance for those nine wells and we were also denied clearance for the seven wells for Uch. So the target exclusive of security wells was 34 wells out of which 31 wells were spudded. We had in fact about 36 locations ready but due to the early monsoon this year, three of

our locations were flooded so we could not spud those wells before 30 June 2008. But if you compare first month of this year versus the first month last year, we have spudded five wells to-date this year which is, comparatively speaking, better, than for the comparable period.

Prashant Gokhale: How many are you targeting this year on a like-to-like with 31, assuming that you leave out the security clearance ones – what is your target for this year?

Mr Aftab Ahmad: We are basically targeting 32 wells next year.

Prashant Gokhale: In FY09?

Mr Aftab Ahmad: Yes, and if you add those which are dependant on security, the number it will go up to 52.

Prashant Gokhale: If I have any more questions I'll ask again. Thank you, sir.

Operator: Thank you. We'll take our next question now from Umer Ayaz of JS Global. Please go ahead.

Umer Ayaz: Hello. My only question is basically regarding the circular debt problem that is prevailing in the energy sector in Pakistan. Sir, my question is that is OGDC in particular and the E&P companies in general are suffering from this circular debt issue which these OMCs and refineries are facing right now?

Mr Aftab Ahmad: We have been impacted to some extent but not to the extent as the OMCs have been impacted. Our problem is that a few of the refineries have not been paid, primarily Attock and National Refinery so in turn they delayed payments to us, resultantly there's a certain swelling of receivables but we expect that in next quarter or maybe in next six months' time, we will be able to bring it down.

Other refineries are pretty current. We also have an issue with SSGCL because SSGCL is not being paid by its costumers, who in turn have withheld our payments. We're working with SSGCL as well on this issue and we expect that we'll be able to settle this in the near future.

Umer Ayaz: Sir, how much would be the overdue amount as of now from all the three entities – Attock, National and SSGCL?

Mr Aftab Ahmad: The receivables which are overdue from SSGCL is about Rs 3.7 billion, and from refineries it is around Rs 2.3 billion.

Umer Ayaz: Right. Sir, my other question is basically about the commencement of drilling on Mela-3. How soon should we expect the drilling to commence on Mela-3 field?

Mr Aftab Ahmad: Mela-3 probably will be commencing in the next 30-45 days.

Umer Ayaz: Okay, thank you, sir. Thank you very much.

Operator: Thank you. We will take our next question now from Saad Rashad of Invest Capital Investment Bank.

Saad Rashad: My question is about the *other income* of the company. We've seen a fall in the first three quarters this year in the other income of the company, mainly from interest received. So my question was that – hello?

Mr Aftab Ahmad: Yes, go ahead.

Saad Rashad: My question was that since the cash balances of the company had also been increasing and mostly the company gave certain bank deposits so with the interest also rising, how has the interest received been decreasing this year?

Mr Aftab Ahmad: If you forget about the rate for a while, look at the volumes and compare the volume of investments with the last year then you will see that investments made last year were up, compared to this year investments, this comparative reduction in the principal amount yielded low return. And the other major chunk impacting other income is that of the dividend we received from PGCL.

Saad Rashad: Okay, thank you.

Operator: Thank you. We'll take our next question now from Naveed Vakil of AKD Securities. Please go ahead.

Naveed Vakil: Hello. My question is basically I wanted to know are there any offshore attempts that you've lined up for 2009.

Mr Aftab Ahmad: Do you mean drilling a well?

Naveed Vakil: Yes, exactly.

Mr Aftab Ahmad: Right now, no. We are going through a process have acquired 3D seismic data which was shot and processed, which is undergoing the interpretation phase now. It all depends on the interpretation of the acquired and processed 3D seismic, if we can firm up a prospect which is good enough to be drilled, only then we'll start the next phase of drilling the well. So as of today, we don't have any plans of drilling an offshore well next year. If we come up with good, hot prospects then of course we probably will go after it, in all probability it will not happen this year.

Naveed Vakil: Okay, thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please press *1 on your telephone keypad. We'll take our next question from Prashant Gokhale of Credit Suisse. Please go ahead.

Prashant Gokhale: I'm back again. I actually have three questions, sir. First, just a follow up on that question on deepwater exploration, would you be able to tell me what water depth are you normally likely to deal with in offshore Pakistan?

Mr Aftab Ahmad: In the block which we were referring to in the earlier question, the water depth ranges from about 35m to about 80m.

Prashant Gokhale: Right. What sort of rigs would you be looking at?

Mr Aftab Ahmad: We'll be looking at a jack-up for the block we are referring to.

Prashant Gokhale: The jack-ups are reasonably easily available so would you be kind of looking to speed up the programme given that the jack-up market is likely to get slack in the next six months?

Mr Aftab Ahmad: It all depends on the data being interpreted.

Prashant Gokhale: And are you the operator or is Shell doing it?

Mr Aftab Ahmad: We are the operators.

Prashant Gokhale: Okay, so it's in your hands to kind of drive the program— so do you have somebody doing the seismic already right now?

Mr Aftab Ahmad: No, no, as I said, we have already shot seismic.

Prashant Gokhale: Okay, so you are interpreting it right now.

Mr Aftab Ahmad: Yes, we are going through the interpretation phase.

Prashant Gokhale: Okay, fair enough, sir.

Mr Aftab Ahmad: Depending on the result of interpretation, if we have a drillable prospect, we will go out and look at the jack-ups market and firm up.

Prashant Gokhale: Fair enough. So the other two questions, they are on the numbers. Again my apologies, this question is intuitive. I'm not able to get a handle on it, but basically if you look at the royalties, this year as a percentage of sales they seem to have gone up. In the last five years, the average is 11%. This year it seems to be closer to 14%. I'm just wondering what's driving that and will that remain like this going forward?

Mr Aftab Ahmad: It most probably will come down next year as explained earlier we have booked some adjustments in royalty this year as compared to last year.

Prashant Gokhale: As a percentage of sales or as an absolute number?

Mr Aftab Ahmad: As a straight percentage

Prashant Gokhale: But that will continue to remain going forward?

Mr Aftab Ahmad: This year we booked some royalty adjustments relating to prior years which will not be there the next year.

Prashant Gokhale: So how much is the royalty for prior year in these numbers then?

Mr Aftab Ahmad: It's around Rs. 3.5 billion.

Prashant Gokhale: So that will not happen?

Mr Aftab Ahmad: Yes, that will not happen.

Prashant Gokhale: Okay, so it will go down a little bit going forward then.

Mr Aftab Ahmad: Yes, It will go down.

Prashant Gokhale: Okay, perfect, sir. The second thing is your general sales tax as a percentage of sales seems to have gone down. Will that remain lower going forward or?

Mr Aftab Ahmad: No, it will be back to more or less the same percentage. The reason you would see this going down is that we have booked the royalty we talked a while ago on Uch filed which has not been subjected to sales tax and we are trying that that should be exempted. So that's why you will see that anomaly. But once these special treatments or special adjustments are not there then you will see the same trend and hopefully this trend will be there the next year.

Prashant Gokhale: Okay, all right, sir. Okay, sir. Thank you very much.

Operator: Thank you. We will take our next question now from Umair Siddique of Elixir Securities. Please go ahead.

Umair Siddique: Thank you for your presentation, sir. Sir, my first question is related to the appeal that OGDCL has filed with the Income Tax Tribunal. When do you expect the result of the decision to be made with regards to the depletion allowance?

Mr Aftab Ahmad: It's very difficult to answer. We were heard by a three-member bench. Due to the issues involved a larger bench is to be constituted.

Umair Siddique: Okay. So it might just linger on like Qadirpur pricing issue.

Mr Aftab Ahmad: Hopefully not. .

Umair Siddique: Okay, and in case of a favourable decision, will there be a reversal? And if there is a reversal, will there be any cash effect as you just mentioned that there was no cash effect? But will there be a cash effect in case of a reversal?

Mr Aftab Ahmad: In case of favourable decision, there could be a reversal to the P&L and you will not see a direct cash impact but it will be an adjustment against future tax liability.

Umair Siddique: Okay. Thank you very much.

Operator: Thank you. We'll take our next question now from Abdul Rasheed Narejo of ABL Asset Management. Please go ahead.

Abdul Rasheed Narejo: Thank you for the presentation. I just wanted more clarification on the tax issue. Company's effective tax rate in FY08 has significantly jumped from the historical rate up less than 30%; now in FY08 38-40%. With all the provisions already accounted for regarding the royalty and tax, can the management say with confidence that we cannot, we will not see a significant additional liability in the current fiscal year, in future years and effective tax rates should again normalise to the past rates?

Mr Aftab Ahmad: It should. If you look at the last year's accounts, there was a contingent liability which has now gone up to about Rs 9 billion. We have booked the contingent liability this year pending a decision in our favour; any future liability will be booked in the same year. So you will see normalisation of tax, effective tax rates, in the future years.

Abdul Rasheed Narejo: So whatever provisions that we have seen in FY08 excluding the royalty adjustment, recurring royalty adjustment related to Uch field, we will not see any recurring adjustment in tax or royalty in the subsequent years.

Mr Aftab Ahmad: No, whatever we'll see will be all current.

Abdul Rasheed Narejo: So just again to clarify that effective tax rate of the company will not significantly change in the coming years.

Mr Aftab Ahmad: Hopefully not.

Abdul Rasheed Narejo: Okay, my second question is regarding Mela-3 expansion. The company has already completed second well and stage planning to drill third well. Can you give a guideline as to how much peak production is complete, the company is operating for this field and when will that level be achieved?

Mr Aftab Ahmad: On average one well in the field has the capacity to produce +/- 4,000 bpd. Field deliverability can be ascertained only once we have got all the Mela wells in place, which will be again dependent on Mela-3 and Mela-4 and the overall development strategy based on producing wells and the history plot of pressure data. We can not decide of the ultimate number of wells based on one or two wells. Once that ultimate number is available, only then we can tell you what could be the production profile of this field on a commercial basis.

Abdul Rasheed Narejo: But drilling of development wells at an earlier stage is indicative that the management is targeting production expansion and not the replacements. So the primary objective behind Mela-3 and Mela-4 is to enhance cumulative production from this field, am I correct?

Mr Aftab Ahmad: Yes, you are absolutely right but you see, Mela-2 was an appraisal well but now we'll further drill Mela-3 and 4 which will be appraisal cum development wells. We'll operate that field and continue the development.

Abdul Rasheed Narejo: And what are the current estimates for these productions?

Mr Aftab Ahmad: The current facilities can handle up to 12,000 barrels so the Mela-1 and Mela-2 can be handled very easily. If Mela-3 comes on stream, Mela-3 can also be handled through this facility. If Mela-4 comes on stream then we'll have to sort of manage the production from the reservoir and also look at the production profile and the operational history matches and then we'll decide how to further develop Mela facilities most probably by adding another train of similar facilities for incremental 12,000 barrels that's how normally fields are developed. You put a train and then once that train achieves full capacity and there is additional deliverability in the field, you go for another train to handle the incremental volume.

Abdul Rasheed Narejo: So sir, is the production from Mela-1 and Mela-2 at optimum level at this moment?

Mr Aftab Ahmad: Yes.

Abdul Rasheed Narejo: And the peak level from these two wells is 7,000 barrels per day.

Mr Aftab Ahmad: Correct.

Abdul Rasheed Narejo: Okay, regarding the same area, you have recently spudded one more exploration well in Nashpa block, Nashpa exploration well. So post-Mela discovery, has there been some kind of interesting expectation regarding the reserve potential about this whole area because there have been a lot of surprises in this area and a lot of good discoveries have been made namely – Mela, Manzalai, Makori. So can we expect OGDCL to probably drill even more wells in Nashpa block in the coming years?

Mr Aftab Ahmad: We expect to have the similar analogy, Makori, Manzalai in Nashpa area. We expect a pleasant surprise because it's a separate structure.

Abdul Rasheed Narejo: So are you planning to drill additional wells, exploration wells, in Nashpa block?

Mr Aftab Ahmad: Most probably yes the area is being evaluated and Nashpa Deep well has been put into a different fault zone. Our review work continues and there are other prospects in that area which we'll exploit later, additional seismic is also being shot.

Abdul Rasheed Narejo: Thank you.

Operator: Thank you. We will take our next question from Saad Hashemy of JS Investments. Please go ahead.

Question: Hi, this is actually Saad Hashemy's associate Zukaina. I just had a question about dividend income from Pirkoh. There's actually Rs 5 billion on this year whereas in the previous years it's been around Rs 250 million. So why do we see this sharp jump in the dividend income?

Mr Aftab Ahmad: As we mentioned earlier that we have decided to merge this company as of cut-off date of 30 June 2008 with OGDCL. So it's a normal trend when you are trying to merge companies, you just pay off the dividend to the shareholders, which in this case happens to be OGDCL. So we just paid out dividend; now we'll be merging the company.

Question: Okay, so this is basically the merger has this been decided?

Mr Aftab Ahmad: Yes, scheme of merger has been approved by the two Boards. We have engaged a consultant Taseer Hadi KPMG who is handling the process of merger.

Question: Okay. All right and thank you.

Mr Aftab Ahmad: Thank you.

Operator: Thank you. We'll take our next question now from Umar Gagai of Cassim Investment. Please go ahead.

Umar Gagai: Hi. Thank you for the presentation. My question is about the company Pirkoh Gas. I just wanted to have some details on the merger and a bit of background on Pirkoh Gas and what sort of impact can we see next year in the top line and bottom line from Pirkoh's merger on OGDC?

Mr Aftab Ahmad: I guess probably the same as you have seen this year except the dividend. We'll have more or less the same sort of volume being produced from Pirkoh field next year. There are certain compartments in the field structure which need to be drilled and whenever we can get security clearance of moving the rig in, we probably would drill those one or two odd wells which would probably give us access to those compartments and with that access we can improve the production.

Umar Gagai: My second question is about the fourth round of bidding in Libya. What sort of a timeline are you guys expecting to get the whole deal done?

Mr Aftab Ahmad: We participated in the Libyan bid round however we were not successful, so from our point of view it's already done.

Umar Gagai: Oh okay, thank you.

Operator: Thank you. We will take our next question now from Saad Ahmed of Capital One Equities. Please go ahead.

Saad Ahmed: Hi, I have two questions; one is actually presumably on Tal block will come under the new Petroleum Policy. Would it be subjected to windfall gains tax as envisaged in the new Petroleum Policy? And wouldn't that affect the effective tax rate going forward?

Mr Aftab Ahmad: Subject to exercise of option to convert into the new policy by the Operator, Tal block in my view will in the post option exercise scenario fall in two different policies. The current production probably will fall in the existing policy and the well which is currently being drilled would be a candidate as an option to be taken to the next policy. That's all I can say right now because we have yet to test this philosophy in any of the blocks OGDCL is operating.

Saad Ahmed: And my second question is will you be incurring exploration expenditure in Zone 1, particularly in Baluchistan?

Mr Aftab Ahmad: Yes.

Saad Ahmed: This year?

Mr Aftab Ahmad: We have got good exploration acreage in that area and honestly speaking, we have been trying our best to move in the area and work subject of-course to security clearance, Government of Balochistan has recently cleared three blocks out of the nine blocks we hold in that area. So preliminary work has been initiated to moving those three blocks which have been security cleared and start looking at preliminary exploration activity like taking the geological samples etc. designing seismic acquisition programme could be next which will lead to engaging a contractor and then we'll start shooting seismic which could lead to eventually start of drilling activity, hopefully in next year or year after that

Saad Ahmed: Do you still see security concerns or do you have still security concerns in Mela and Chanda block, Chanda fields?

Mr Aftab Ahmad: Not really, there is no security concern in Mela and Chanda block.

Saad Ahmed: Okay, thanks.

Operator: Thank you. We will take our next question now from Seema Relekar of Morgan Stanley. Please go ahead.

Seema Relekar: Sir, I have two questions for you. Firstly, does the company share any subsidy burden with the Government of Pakistan? And I'll go with my first question first.

Mr Aftab Ahmad: No. We don't share any burden with the Government of Pakistan on any account. I guess you are probably comparing us with some other model most probably Indian model.

Seema Relekar: Thank you, sir. My next question is what is the EBIT per barrel for oil for the company?

Mr Aftab Ahmad: We don't have the numbers on EBIT / barrel. I can tell you what the lifting cost per barrel is.

Seema Relekar: Okay and what will be the lifting cost per barrel?

Mr Aftab Ahmad: Lifting cost is \$3.50 all inclusive.

Seema Relekar: Okay, thank you sir.

Operator: Thank you. We'll take our next question from Yasir Shafi of BMA Capital. Please go ahead.

Yasir Shafi: Hi, I just have one question; it's concerning the drilling of Mela-3. Do you expect drilling for Mela-3 to be completed within the year FY09 and if so, how much production do you expect it to add, crude oil production from the field?

Mr Aftab Ahmad: We expect to complete the well Mela-3 within the year 09, and we have got the same expectation, about 4,000 barrels plus.

Yasir Shafi: Okay, thank you.

Operator: Thank you. We'll take our next question from Fawad Khan of Kasb. Please go ahead.

Fawad Khan: Hi, Fawad Khan here. I just wanted to have one question. How many rigs have you contracted for the next year?

Mr Aftab Ahmad: Number is the same as of last year that is 12, total would be 19 including our own rigs.

Fawad Khan: And if I am correct, the total number of rigs the company owns is like seven rigs?

Mr Aftab Ahmad: Yes.

Fawad Khan: Okay, thank you.

Operator: Thank you. As we have no further questions, I would like to turn the call back over to you, gentlemen, for any additional or closing remarks.

Mr Aftab Ahmad: Well, thank you very much, ladies and gentlemen. On behalf of OGDCL and on behalf of MD OGDCL and other team members, we are thankful to you for joining in and having this conference call. I will now ask Mr Zahid Hussain to have the concluding remarks before we close off the call.

Mr Zahid Hussain: Indeed it was a pleasure to interact with all of you. This kind of interaction creates learning for all. We hope that with the aggressive drilling and other ongoing all around improvements we can comfortably say that the results will improve further and we expect and look forward to closing another successful year for the company. With these remarks, I wish you all the best of every thing and hope that we remain in touch. Thank you very much.

Mr Aftab Ahmad: Thank you. We will now switch off the call. Thank you very much.

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