Oil & Gas Development Company Limited
CONFERENCE CALL TRANSCRIPT
FULL YEAR RESULTS 2006/07
Wednesday, 22nd August 2007
13h00 UK Time

Operator: Hello and welcome to OGDCL's Full Year financial results 2006/2007 conference call. Presenting today will be Mr Arshad Nasar CEO and Chairman of OGDCL and Mr Aftab Ahmad CFO and Executive Director of Finance. There will be an opportunity at the conclusion of this presentation for a brief question and answer session. I would now like to hand over to Mr Arshad Nasar to commence today's conference call.

Arshad Nasar: Thank you very much. Before I commence today's presentation please be aware that forward looking statements will be referenced during this call. I refer you to slide number two of our presentation where you will find a short Safe Harbor statement. I would ask all of you to kindly take some time to read the legal disclaimer on this page.

SLIDE 3

Let me begin by saying good afternoon and welcome to our presentation on OGDCL's full year 2006/2007 financial results. Firstly, a very brief overview of our company and its major assets. OGDCL is the largest upstream player in Pakistan. It holds 30% of the country's recoverable oil reserves and 32% of the country's recoverable gas reserves. In terms of production in oil, it produces some 61% of the country's oil output and at the moment about 24% of the country's gas output.

For those of you who are less familiar with our operations, this is an exciting position for OGDCL to be in, in view of the significant future geological upside potential that our country provides. We feel that with our in-depth understanding of Pakistan's geology, we are well positioned to capitalise on this. The map that you see illustrates our key assets location with our key fields close to high demand areas such as Islamabad and Karachi. Our large portfolio of fields, in highly prospective areas, provides us with ample opportunity to maintain production growth.

Also, this now clearly demonstrates, we have expert knowledge in all the four provinces of Pakistan. We currently have a portfolio of about 85 fields operated as well as non-operated whereas additional eight discoveries are under appraisal. The vast majority of OGDCL's production is operated and controlled by the company. However, our company, that is OGDCL, also has joint venture contracts with other E&P companies operating in Pakistan such as OMV, ENI and MOL. We have major operated JVs with Premier Kufpec, PPL and GHPL. We produce from 38 of our own 100% owned and operated fields. We also possess 40 development and production leases in our portfolio of assets. The offshore represents a source of significant geological potential. This is a new area of focus for OGDCL and given the significant resource potential, OGDCL is positioning to capitalise on this, hence our existing joint venture with Shell and our recently announced JV with Petrobras.

SLIDE 4

On the country backdrop, Pakistan is one of Asia's fastest growing economies. The country's GDP growth, which has reached 7% in 2007, is forecasted to continue to grow at an accelerated pace over the next few years. Major factors contributing to this growth in GDP have been private sector consumption growth and investment flows as well as the implementation of several economic reforms. Pakistan's energy consumption continues to outpace domestic supplies. Strong macro economic performance has underpinned a growth in consumption which has increased this imbalance.

SLIDE 5

Regarding the highlights of the results, as I announced in our company statement this morning, the period under review has been characterised by sales which was in part offset by a higher cost relating to increasing exploration and prospecting activity. This was in line with the management's expectation. On a consolidated basis, net sale rose to 3.5% to close the 12 months to 30th June 2007 at close to PKR100 billion.

We have achieved a challenging target of spudding 41 wells for the year 2006/2007 and made 10 new discoveries. However, on the production side our targets for oil of 21% and for gas of 4% could not be achieved. The production growth from our operated fields showed an increase of 12.4% while our production share from non-operated fields such as Pindori, Adhi and Buzdar South decreased by about 14.2%. Overall, we witnessed an oil production increase of 6.5% on net basis while gas production remained stable during the period under review. Our gas production was affected because of the prolonged annual turnarounds at Uch and Qadirpur, suspension of operations from Pirkoh and Loti fields and also because of lower demand of gas by SNGPL from our Qadirpur field.

The lower than expected results in oil production were caused by factors such as unforeseen drop in production from one of our major non-operated fields, failure of implementation of acoustic technology for enhanced production and some disruptions in our fields in the early part of our financial year 2006/2007. The delivery of sustainable future production growth is the cornerstone of our strategy and as such the exploration capacity enhancement project and new exploration activities will definitely augment the production in the coming years.

SLIDE 6

The audited results highlights basically shows the main items on the OGDCL basis only and I will now request my colleague, Mr Aftab Ahmad to take you through the next few slides.

SLIDE 7

Aftab Ahmad: Good afternoon to all the participants. We are now on slide seven. In the earlier part of our fiscal year under review, Pirkoh and Loti, the two gas fields which are located in Balochistan, were temporarily shut down as a precautionary measure resulting from a conflict in Balochistan. Our gas production in these fields has now resumed and we are now running smoothly out of these two fields. By the end of year, 14 work-overs were completed. We have tied in 10 new wells to our regular production. Our capacity enhancement project at Qadirpur plant is expected to result in a further 100mmcfd of production coming on-stream in the year 2008 to meet demand from a new fertiliser plant being constructed by M/s Engro in Pakistan which is one of Pakistan's premiere fertiliser manufacturers.

We have experienced a delay to our development plan for the Tando Allah Yar and Sinjhoro fields due to a contractual dispute. This has impacted our ability to fully meet our capex target of approximately half a billion dollars. Actually, capex stood at $377 million for the current financial year. That means that the commencement of production from these fields can be pushed back to 2009. However, this has been offset by our new discoveries such as Mela that we have already put into production on a very fast track. We remain on target to achieve our double digit Compounded Annual Growth Rate of 10-11% for both oil and gas for the next three years.

On the oil production side, let me give you a breakdown of the 6.5% net increase in oil production. There was a 12.4% increase in production from fields which are directly run or controlled by OGDCL. However, there was a decrease of 14.2% from the non-operated fields so the combined effect of those two resulted into the 6.5% increase over last year.

SLIDE 8

Going on to slide 8, Pakistan is an area of significant hydrocarbon potential, one which we have a rich working experience in tapping. Duing the period under review, 41 wells were spudded. The exploration team we have got in-house is well equipped with industry-standard interpretation technology, and we are experts in identifying commercial exploration opportunities and always willing to take the lead in geologically challenging environments.

OGDCL's strong commitment to exploration, appraisal and production has continued duing this year and would continue in future. During the year 2006/2007, 3,282 linear kilometres of 2D Seismic Survey was carried out in on-shore areas and 661 square kilometres of 3D Seismic Survey work was carried out in onshore and offshore areas..

OGDCL has also financed a Basin Studies Project which is well underway and is expected to be completed by February next year. The study is expected to redefine new hydrocarbon bearing acreages in Pakistan.

Here, I would like to mention a couple of extraordinary items which have impacted our financials for this year. As you recollect from the last presentation we have made, the Qadirpur gas price discount table has not yet been finalised and the issue remains unresolved.

During the last quarter 2007, there has been a series of meetings between Qadirpur joint venture partners and the Director General (Gas) to resolve the issue and finalise discounts. We expect that the same will be resolved before the end of this year. Non-resolution of this issue has resulted into a price decline. Current year gas price was less than past year because in the past year there was a mix of a higher gas price during the first half and a lower gas price for the last six months, whereas during the current year we have got a low gas price for full year which is based on the interim price notification by the Government of Pakistan.

We have made an adjustment of charges in this current fiscal year w.r.t. refineries' $50 plus per barrel issue. If you recollect the issue relates to the pricing for crude oil on prices exceeding $50 per barrel and as explained earlier during our presentation and during our briefing and meeting with the analyst community, this is an industry-wide issue. The industry is trying to resolve this issue through meetings with government officials at all levels. However, pending this resolution, a provision of PKR 1.478 billion has been made on account of sales revenue of crude oil for prices in excess of $50 per barrel. This provision reflects an adjustment made for incremental discounts for last year. Current year revenues have also been booked on higher applicable discounts.

SLIDE 9

Moving onto the next slide, which is slide nine, operating expenses have increased due to our heightened exploration activities. Critically though, our focus has been to grow without sacrificing our profitability and as you can see we have almost stayed where we were last year with respect to profitability. We expect our increased spending in exploration and prospecting will result in terms of addition of hydrocarbon assets and reserves in the near future.

SLIDE 10

Now, we will move onto slide 10 which talks about the Group's financials. This is reflective of our enhanced exploration efforts and the hit we have to take for the increased discount factor on the $50 plus crude revenue outstanding. Current year also reflects adjustment on this account for the last year's sales.

Just to give you a ballpark adjustment, the last year adjustment of $50 plus crude oil discount adjustment on consolidated basis will give you an EPS adjustment of 28 paisas and the adjustment we have made for this year is another 34 paisas on EPS. So, we endured a total hit of about 60 paisas on the EPS on this account. The Board has also declared a final interim dividend of PKR 3.50 per share which is in addition to the already declared interim dividends during the financial year 2006/2007, giving a total dividend of PKR 9 per share for the year ending June 30th 2007. The final dividend will be paid to the shareholders whose names will appear in the register of members on September 20th 2007.

SLIDE 11

We will now move onto slide 11. These are the company's financial information that we have provided earlier on, the first slide was a reflection of Group financials which is inclusive of our subsidiary company i.e., Pirkoh Gas Company Limited. I will now hand over the microphone to Mr. Nasar to conclude the presentation.

Arshad Nasar: Thank you. Just to summarise, our key business strategy going forward is the delivery of sustained production growth while maintaining our low cost operator status. We certainly will look to further exploit our exploration and drilling expertise and expand our exploration blocks offshore. We will also look to assess potential international opportunities on a case by case basis.

It is our intent to continue to evaluate opportunities based strictly on the economic fundamentals and would avoid acquiring reserves or assets by going into the value destroying bidding wars with other E&P companies. This will ensure that we are able to maximise our returns, therefore any international extension project would be extensively screened.

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

Q&A's

With this we conclude our presentation for today and we would now like to open the call for any questions that you have, ladies and gentlemen.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question please press *1 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 from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions. We will take our first question from Naveed Vakil from AKD Securities. Please go ahead.

Naveed Vakil: *There was a mention that eight discoveries are currently under appraisal. What kind of timeline are we looking at for the appraisal activities to be concluded on these eight discoveries?*

Aftab Ahmad: They are in varying stages of being appraised. Few are being appraised by drilling a well so depending on where you are in a geographical strip, it could be anywhere from three months to about eight to ten months. Mela-2 is one which we are focusing and probably that will come towards the end of this year if everything goes fine with the local situation there.

Naveed Vakil: *Okay, thank you.*

Operator: We will now take a question from Fawad Khan from KASB securities. Please go ahead.

Fawad Khan: *Hi, my question is on Capex spending for OGDCL in FY '08 through to FY '11. Has there been any change since you made the presentation last year?*

Aftab Ahmad: We don't have the numbers right now. We are in fact right now finalising our strategic plan for the next three years. Once that strategic plan is finalised, we will be better positioned to give you a fair idea of the spending for the next three years.

Operator: We will now move to Faraz Farooq from First Capital Equities. Please go ahead.

Faraz Farooq: *Yes, hi. Any advise on Mela field's reserve size. The field is currently producing around 5,000 barrels per day oil and 8 MMscfd gas. What level of output can we assume for FY '08 and FY '09 as the company has already drilled two more wells in this field?*

Aftab Ahmad: As I said earlier, we have initiated drilling. We plan to drill two more wells. Mela-2 and Mela-3 are currently under drilling. It will take about 10 to 12 months to complete these two wells. It is still very premature to give you a number on reserves. We have put Mela-1 on extended well test (EWT) for the next 18 months. Once we have good production and pressure data available from the EWT we will then be in a position to give you some preliminary reserves estimate.

Faraz Farooq: *Thanks, sir. One more question I would like to ask. During FY '07 out of 18.5 billion operating expense, a sum of around PKR2.5 billion was due to minimum gas supplied to Uch power and as you have mentioned $50 per barrel realised price or discount to crude, should we expect this kind of provision in the coming quarters as well?*

Aftab Ahmad: No. We have provided all what we had to provide in the case of Uch. Similarly, we have provided the maximum we have to provide for the $50 per barrel issue. Based on current available information, there will be no further provisioning on these two accounts in future years.

Faraz Farooq: *Just a quick follow up question, thanks for your time. I was just wondering, as you mentioned, the prediction from your joint venture partners have declined tremendously. Here I would like to put example of Pindori which has seen a severe production decline from around 10,000 barrels per day to below 5,000 barrels per day. What are your views from this field and what kind of problems do you believe that this will impose and could the field ever produce at its maximum level?*

Aftab Ahmad: We are not the Operators of Pindori field. The best person to reply to this question is the Operator. Sure, we do get the data but the live data and the exact information is available with the Operator. We have been informed by Operator, during the operating committee meeting, different plans the Operators is looking at to improve the production from this field. I think the best answer can only be given by the Operator of Pindori field.

Faraz Farooq: *Okay, thank you.*

Operator: We will now take a question from Umer Ayaz from JS Global. Please go ahead.

Umer Ayaz: *Hi. My question is that OGDCL has recently acquired a 70% stake in the Guddu block but the company has mentioned that it is under special assignment agreement. I just wanted to know whether it is a long term JV or whether it is a short term contract between the operators and OGDC.*

Aftab Ahmad: We are the Operators. IPR had 100% working interest before our farm-in. OGDCL has taken over 70% of the working interest with Operatorship. Our professionals have started the evaluation of the existing data; we might shoot some 2D seismic. Existing leads are currently under review and we will be positively going to drill a well before the end of this calendar year once we finalize a prospect, that is what the JV has committed to do.

Operator: We will now move to Saad Ahmed from Global Securities. Please go ahead.

Saad Ahmed: *Yes, hello. I would like to – if you could just shed some light on your offshore joint ventures as well, particularly the one with Shell in offshore [E]. The joint venture was supposed to begin drilling around in August but I believe the rig has gone back for some repairs. And secondly, could you also let us know what is the number of new rigs OGDCL has acquired to facilitate its extensive exploration programme that you have outlined for the next few years.*

Aftab Ahmad: In our offshore JV with Shell, we expect that the rig will be here sometime in the later half of September and we can start drilling around that time. This is the most recent update we have got from the Operator. At present, we have got 22 rigs operating. Out of these 22 rigs, OGDCL owns eight, while the rest are all contracted rigs.

Operator: Again, to ask a question please press *1 on your telephone keypad. We will now take a question from Mriganka Jaipuriyar from Platts. Please go ahead.

Mriganka Jaipuriyar: *Hi. I wanted to check with you on your possible JV with BP which is mentioned in the presentation and also if OGDC is facing any equipment shortages which seem to have plagued the oil and gas industry in the past few months. Also if you had any estimates, any results, estimates, in the offshore basins in Pakistan, if you could share that with me.*

Aftab Ahmad: The deal with BP is between the two companies that has already been closed. We are working with the modalities to bring this to a higher level of execution. That means that working on signing the agreements and then getting those signed by the Government of Pakistan. In the case of equipment procurement, as a company to date we have not experienced any problems. We had some problems initially in acquiring rigs; however, these were quickly overcome. In future, we expect there could be some problems but we do have good relationships with a lot of different supply houses so we expect that we would be able to come out unscathed from this problem looming over the industry. Giving you any number for the reserves for offshore Pakistan will be difficult, it is a totally frontier area, with a lot of upside potential but to tell you honestly, we have to make a discovery and then based on that analogue we can give you some numbers. There could be numbers which are floating in the market but they are individual's estimate or individual businessmen estimate, however, offshore Pakistan structures are large and if we had a discovery, hopefully it has to be a large discovery. We have yet to find the "key" to offshore Pakistan.

Mriganka Jaipuriyar: *Okay. Now, again coming back to BP, are they looking to invest in a block offshore, in offshore Pakistan or is it some sort of technology agreement?*

Aftab Ahmad: BP has already taken three blocks as Operators.

Mriganka Jaipuriyar: *Oh, okay. I am sorry, I was not aware of that.*

Aftab Ahmad: Under the agreed arrangement OGDCL will get a certain participating interest in their blocks and they will take a certain participating interest in one or two of our blocks.

Mriganka Jaipuriyar: *Okay, and all these three blocks are offshore?*

Aftab Ahmad: Yes.

Mriganka Jaipuriyar: *Okay. Would you be able to tell me the names of these blocks?*

Aftab Ahmad: U, V, and W.

Mriganka Jaipuriyar: *U, V, and W. Okay. And BP has 100% of these right now?*

Aftab Ahmad: Right now, they have got 100%.

Mriganka Jaipuriyar: *Okay, thank you so much. Thanks.*

Aftab Ahmad: By the way, let me tell you OGDCL will have its presence in nine blocks in offshore Pakistan, including three BP offshore blocks where we have yet to sign the Assignment Agreements.

Mriganka Jaipuriyar: *Okay. And two of these are with Shell and Petrobras?*

Aftab Ahmad: One is with Petrobras and one with Shell.

Mriganka Jaipuriyar: *Okay, so one is with Shell, one is with Petrobras and the other seven are 100% OGDC owned?*

Aftab Ahmad: Four are 100% OGDCL owned, one each with Petrobras and Shell, another three soon-to-be with BP.

Mriganka Jaipuriyar: *Okay, okay thank you.*

Operator: We will now take a follow up question from Fawad Khan from KASB Securities. Please go ahead.

Fawad Khan: *Yes, first off you mentioned about production growth target of 10-11% for both oil and gas over the next two to four years. Is it a downgrade in production growth target from OGDCL because earlier OGDCL was targeting roughly 13-14%?*

Aftab Ahmad: Can you please repeat the question?

Fawad Khan: *My question is, is there a downgrade in production growth target for OGDCL over the next two to three years?*

Aftab Ahmad: Yes, this is the new guidance we are giving.

Fawad Khan: *Okay. On the drilling side, you have also reviewed your drilling target from 51 to 41 wells, is that correct?*

Aftab Ahmad: There was never a target set for 51.

Fawad Khan: *For FY '08?*

Aftab Ahmad: No. 41 plus nine for year 2007/08. That is the target which we have set out for ourselves. Whatever you have heard in the market or you have read in the newspapers we don't know the source of that.

Fawad Khan: *So, you are targeting total 51 wells in FY '08?*

Aftab Ahmad: Our target is 41 wells plus nine.

Fawad Khan: *And what nine are you referring to?*

Aftab Ahmad: Sorry?

Fawad Khan: *And nine is referring to which…?*

Aftab Ahmad: Nine refers to the contingent wells which are subject to security clearance.

Fawad Khan: *Okay. Thank you.*

Operator: As a final reminder please press *1 if you would like to ask a question. That will conclude today's question and answer session. I would now like to hand the call back over to Mr. Nasar for any final remarks.

Arshad Nasar: Thank you operator and thank you ladies and gentlemen for joining our call today. We appreciate your time and certainly look forward to speaking with you again sometime in the future. Thank you again.

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