

# Oil & Gas Development Company Limited

## HALF YEAR FY2008 RESULTS CONFERENCE CALL Held on Wednesday 27<sup>th</sup> February 2008 At 17 00 hrs, Pakistan Time

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**Presenters: Mr. Arshad Nasar, CEO & Chairman  
Mr. Aftab Ahmad, CFO & Executive Director (Finance / JV)**

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**Operator:** Ladies and gentlemen, while we are waiting to begin, may I remind you that a copy of the accompanying presentation to this conference call is available for download from the Company's website. The website is [www.ogdcl.com](http://www.ogdcl.com). Thank you.

Hello and welcome to OGDCL's Half Year Results FY 2008 (July 2007 - December 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. Thank you.

**Mr. 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 2 of our presentation, where you will find a short Safe Harbor statement. While I don't propose to read it out, I would ask you all to please take time to read the legal disclaimer on this page.

Let me take this opportunity to welcome you all to our presentation of OGDCL's half year 2007/08 financial results. Firstly, let me present you with a brief overview of our Company and its major assets. OGDCL is the largest upstream player in Pakistan. It now holds 45% of the country's recoverable oil reserves and 34% of the country's recoverable gas reserves. In terms of production, currently it produces some 61% of the country's oil output and 25% of the country's gas output.

OGDCL, with its in-depth understanding of Pakistan's geology, is extremely well positioned to capitalise on significant upside geological potential. The map on slide 3 illustrates the main areas where our key assets are located.

Our hydrocarbon asset portfolio gives us an edge to continue to grow our production. By looking at the map, you will also see that we are present in all the four provinces of our country. We currently have a portfolio of 95 fields, both operated and non-operated. We control and operate a major portion of our production from these fields. We have joint venture contracts with foreign E&P companies operating in Pakistan like OMV, ENI, MOL, BP, Shell and others. We also have joint ventures with domestic E&P players.

The offshore represents a source of significant geological potential even though our recent efforts in case of Anne 1-X was not fruitful in terms of dollars and cents, but it has given the company insight and valuable knowledge on the geology and geological play concept of the area. OGDCL has recently signed a Cross Assignment Agreement in offshore blocks with BP. OGDCL's offshore blocks involved are Offshore Block S and Offshore Block G, whereas BP's Offshore blocks are Offshore Blocks U, V and W.

Now moving on to the financials, on a consolidated basis, our net sales rose by 14.4% to Rs 56.82 billion from Rs 49.676 billion in the comparable period last year. Our operating profit margin and net profit margin basically remained stable. When compared to 1H 2006/07, EPS increased slightly to Rs 5.6 from Rs 5.33. Average net realised crude prices improved from the previous value of US\$ 55.19 per barrel, whereas average net realised gas price slightly dipped from last year's comparable period prices of Rs 146.68/Mcf to Rs 136.15/Mcf due to the dip in wellhead price notified by OGRA.

The next slide shows the main items on OGDCL-Only basis. I will now request my colleague, Mr. Aftab Ahmad, to take you through the next few slides.

**Mr. Aftab Ahmad:** Hello ladies and gentlemen. I will now take you to slide number 6. During the first half, crude oil production increased by 4,500 barrels approximately per day compared to first half of 2006/7; an increase of 11%.

Crude oil production from operated fields increased by around 17%. However, the oil production decreased by 12% from our non-operated fields.

Similarly, the Company's gas production from own fields and share in operated joint ventures, including production from subsidiary company, increased by around 13%. The gas production from non-operated joint ventures decreased by 9%, resulting in net increase in gas production of 8% over same period last year. LPG net production also increased by 4% during the same period last year. As you might be aware that our development plans for the Tando Allah Yar and Sinjhoru fields were put on hold due to a contractual dispute, the matter is still sub judice; however, maximum efforts are being made to resolve the issue, and we will inform all our stakeholders as soon as the same is resolved.

A capacity enhancement project at Qadirpur plant is expected to result in a further 100MMcfd of production coming on stream in the latter part of current calendar year. We are also working on fast-track basis on the joint development of recent discoveries in Kunnar Deep and Pasakhi Deep fields. We expect that by end of 2009, this project would add approximately 280MMcfd of gas and around 2,800 barrels of condensate per day to our production stream.

We remain on target to achieve a double-digit compounded annual growth rate (CAGR) of 10-11% for both oil and gas for the next three years.

Moving on to slide 7, during the period under review we spudded seven wells. In order to achieve our aggressive exploration and prospecting targets, the Company was able to acquire two more exploration blocks which are named on this slide, bringing the total number of exploration blocks to 44. OGDCL achieved 915 linear kilometres of 2D and 362 square kilometres of 3D seismic survey during the period under review.

OGDCL-financed Basin Study Project is well underway and is expected to be completed by April 2008. The study will throw light on new hydrocarbon acreages in Pakistan.

Our participation in the fourth bid round in Libya is in line with our efforts of getting our feet wet in the international arena. Although we were not able to secure the block; however, it was a good learning experience for OGDCL. OGDCL is pursuing various exploration opportunities focused in North Africa, Southeast Asia and Central Asian states.

Moving onto the next slide, which is slide 8, this graphical presentation shows you the comparatives between last year and this year first half on net sales, operating expenses, exploration and prospecting expenses and net profit after tax.

Our net sales have improved appreciably when compared with the same period last year. Operating expenses have increased along with our increased exploration activity. Our focus has been to grow without sacrificing our profitability and as you can see, we have slightly improved our profitability from where we were last year. We expect our increased spending in exploration and prospecting will bear fruit in terms of addition of hydrocarbon assets and reserves in the near future.

Let's move on to slide 9. This is the Group financials; i.e., OGDCL and its only subsidiary Pirkoh Gas Company Limited. The slide depicts a healthy financial snapshot of our company. As you can see, we have been able to improve our net sales, profit after tax, EPS and profit generated from operating activities compared to same period last year.

The next slide gives you an OGDCL-Only view more or less the numbers are the same. With this, I have come to the conclusion of my part of the presentation. I would now hand over to Mr. Nasar to take the presentation to conclusion.

**Mr. Arshad Nasar:** Thank you, Aftab. Let me just briefly summarize. Our key business strategy going forward is the delivery of sustained production growth whilst keeping a close eye on our costs. We certainly look forward 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. We will continue to evaluate opportunities based strictly on the economic fundamentals, ensuring maximisation of returns. 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.

Before I close this presentation, I take pride in disclosing that our compliance with the best practices of corporate governance has enabled our Company to be placed amongst the top 25 companies on the Karachi Stock Exchange for the third consecutive year.

Operator, that concludes our presentation for today and we all look now to open the call for questions.

**Operator:** Thank you. Ladies and gentlemen, today's question and answer session will be conducted electronically. If you would like to ask a question, please press the star key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and we will take as many as time permits. As a reminder, please press \*1 to ask a question. We will pause for just a moment to allow everyone to signal.

The first question comes from Calvin Koh from Goldman Sachs.

**Calvin Koh:** Hi, thank you for the presentation. I just wanted to get an update on the Qadirpur gas field. Could you elaborate on where negotiations are in terms of the pricing of the gas and what was your gas price realisation during the first half? Thank you.

**Mr. Aftab Ahmad:** There has been no change on the realised price since the last almost a year. We are still negotiating and our read is that we are closing on to a settlement hopefully by June this year.

**Calvin Koh:** Thank you.

**Operator:** The next question comes from Navid Vakil from AKD Securities.

**Navid Vakil:** Hi, and thank you for the presentation. Your highlights state that you expect Mela-2 to be completed by this half of the financial year. Can you be more specific? In what kind of timeline we can expect Mela-2 to be completed and how much production is it expected to add?

**Mr. Aftab Ahmad:** Our expectation is that we will have it coming on stream in the next probably three to four months. Certainly our current read is it will be coming on stream before the June month is closed, it will be producing on the same level as Mela-1, which is around 4,000-5,000 barrels per day, with similar gas production.

**Navid Vakil:** Thank you.

**Operator:** Abdoula Naiteo from ABL Asset Management is on line with a question.

**Abdoula Naiteo:** Thank you. Just wanted to clarify that the additional 100MMcfd gas supply from Qadirpur field which is expected to be completed by the end of 2008, is this part of the scheduled plan to expand processing capacity for upcoming fertiliser and power expansion, as this supply would be in addition to that 150MMcfd expansion that is likely to be consumed in somewhere around 2010.

**Mr. Aftab Ahmad:** Yes. This is for the fertiliser.

**Abdoula Naiteo:** So there would be no improvement in the actual volumes till 2010 by the time when Engro is able to complete its expansion plan.

**Mr. Aftab Ahmad:** No, whilst this gas will go through the system and whenever the Engro plant is ready the same gas will be transmitted by SNGPL to Engro.

**Operator:** Fawad Khan from KASB Securities is online with a question.

**Fawad Khan:** Thank you. I have two questions, one on what percent stake has been farmed out and farmed in with BP on the offshore block.

**Mr. Aftab Ahmad:** We are farming out 50% of our offshore Block S and in return BP is giving us 20% in Block U and 27.5% each in offshore blocks V and W. So in total they are giving us 75% and they're getting 50% in return with a condition that in the next few months we will give them 25% in Block G. So at that time the percentage being offered and taken will be balanced.

**Fawad Khan:** So will you be retaining the operatorship of Block S and G?

**Mr. Aftab Ahmad:** Block S operator ship would go to BP.

**Fawad Khan:** Okay. My second question is on the legal case going on with Tando Allah Yar and Sinjhora development projects. What is the current legal status and when you should expect a resolution of the same?

**Mr. Aftab Ahmad:** I'll request Mr. Nasar to reply on that.

**Mr. Arshad Nasar:** The case is presently pending in the Supreme Court of Pakistan. They have already gone to different hearings. The advice from our counsel is that the case is now getting to closure. We expect that this closure come by, hopefully, within three to four next hearings. It's difficult to specify the exact time at this point in time. However, the best information that we have right now is that it should not take more than three to four hearings in terms of conclusion.

**Fawad Khan:** Thank you.

**Operator:** The next question comes from Umer bin Ayaz from GS Global Capital.

**Umer bin Ayaz:** Hi, thank you for giving us the presentation. My first question is basically regarding the first half HY08 results in which we have seen that the tax rate for OGDC has relatively been higher. If you can shed some light on that. And my second question is regarding the development, the annual development plan of the Company, that so far we have seen that the Company's drilling activities have been relatively slower and from this point I think it seems a bit difficult to achieve a target of 41 wells. So is the Company revisiting its commitments of 41 wells and what's the scenario right now?

**Mr. Aftab Ahmad:** The provision for deferred tax of about Rs 2.5 billion is on account of increased exploration and development expenditure which is essentially the reason behind this increased tax rate.

On your second question, with respect to achieving the 41 wells drilling target, I can assure you that except for the seven wells which we had allocated to Uch field, we are on target. For Uch wells, we have the specialised chrome

tubing in our inventory, whenever we get the security clearance we will spud these wells. If we can't get the clearance then that is the only shortfall which we are looking at at this juncture. You should deduct those 7 wells out of 41; the rest of 34 wells will be spudded. I can also tell you that by the end of this year, i.e., June 30<sup>th</sup> 2008, in addition to spudding those 34 wells we will have a few locations marked on ground which will be ready for spudding. The only shortfall, thus, would be the wells which we had planned for Uch at the time of preparation of our Business Plan, since the security conditions were improving, so we thought we could move the rig there and drill. Other than this shortfall, we are on course to achieve the drilling targets, we are also on course to achieve the CAGR that we have guided to the market earlier on.

**Operator:** The last question comes from Umair Siddiqui from Elixir Securities.

**Umair Siddiqui:** Hi, this is Umair Siddiqui from Elixir. Thank you for your presentation. My first question is that we have seen an 18% quarter-on-quarter increase in operating expenses. Could you please elaborate on the major increase coming in the operating expenses?

**Mr. Aftab Ahmad:** It's because of cost inflation, what we have got in there is some salary adjustments and increases thereon on year-to-year basis.

**Umar Siddique:** Okay, thank you. And my second question is relating to other development projects, especially at Uch-2 and Qadirpur enhancements, and you just mentioned that Qadirpur would be completed by the end of this year. What about Uch?

**Mr. Aftab Ahmad:** Uch-2, I'll be very honest. Again, we have been talking to Uch Power Limited for an enhancement of the production since they are putting up a new plant. But it's again all subject to certain conditionalities. We think that we would be in a position to supply gas to this Uch-2 from 18 to 20 months of the issuance of LOI to the interested IPP.

**Umar Siddique:** Okay, thank you very much.

**Operator:** There are no further questions at this time.

**Mr. Arshad Nasar:** Okay, before concluding let me take this opportunity to thank you, operator and thank you all our participants, ladies and gentlemen, for joining our call today. We greatly appreciate your time and certainly look forward to speaking with you again, hopefully in not too distant a future. Thank you again.