

**OGDCL Half Yearly Results and Progress
Conference Call Transcript
Wednesday, 21st February 2007
17:00 hrs Pakistan Standard Time (12:00 UK Time)**

Operator: Hello and welcome to OGDCL's Half Year Financial Results 2006/2007 conference call. Presenting today will be Mr Arshad Nasar (CEO and Chairman of OGDCL), Mr Najam Hyder (Executive Director of Corporate Affairs) and Mr Aftab Ahmad (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 the call to Mr Arshad Nasar to commence, thank you.

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 to you to slide number 2 of our presentation, where you will find a short Safe Harbor statement.

Good afternoon and welcome to our presentation of OGDCL's unaudited half year 2006/07 financial results. Firstly, for those of you who are less familiar with our operations, a brief overview of our company and its major assets.

OGDCL is the largest upstream player in Pakistan. We have 37% of the country's recoverable oil reserves and 22% of the country's recoverable gas reserves. We have the largest exploration acreage in Pakistan, with 33% of the total awarded. In terms of production we produce some 64% of the country's oil output and 29% of the country's gas output on a gross basis as at 31st December 2006.

You can also see here the current state of our reserves based on the reserves estimate of June 2006 by D&M minus the net production since then. The map illustrates where our key assets are located, with our key feed close to high demand areas such as the City of Islamabad and Karachi.

We feel that Pakistan represents significant future geological upside potential, and we feel that, with our in-depth understanding of Pakistan's geology, we are well positioned to capitalise on this.

Our large portfolio of fields in highly prospective areas provides us with ample opportunity to maintain production growth, as this map clearly demonstrates. We have expert knowledge in all the four provinces of the country.

Here is a very quick overview of Pakistan, which is one of Asia's fastest growing economies. The country's GDP growth, which reached 6.6% in 2006, 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 supply. Strong macroeconomic performance has underpinned a growth in consumption which has increased this imbalance.

As I announced in our company statement this morning, the period under review has been characterised by a strong growth in sales which was in part offset by a higher cost relating to the increase in exploration activity. This was in line with management's expectation. Net sales rose 15.2%, to close the six months to 31st December 2006 at close to PKR50 billion.

The delivery of sustainable future production growth is the cornerstone of our strategy and, as such, the explorations of capacity enhancement projects and new exploration activities have combined to form a strong operational trend during the quarter. As you would expect, this has increased our cost but it has not affected our profitability. Consequently, we are on track to achieve our CAGR of the 13% growth in gas production and 14% growth in oil production for the three years ending June 2009.

I will now hand you over to Mr Hyder to talk to you about the details of our exploration and production.

Mr Najam Hyder: Thank you, Mr Chairman. The operational results on oil & gas production are presented in the slide. The four to five months' shutdown during this period at Pirkoh and Loti gas fields, undertaken as a precautionary measure as a result of the situation in Baluchistan, was lifted and gas production at these sites was resumed. A capacity enhancement project at Qadirpur plant is expected to result in a further 100 million cubic feet per day of production coming onstream in 2008 to meet demand for a new fertiliser plant being constructed by Engro, Pakistan's premier fertiliser manufacturer.

We have experienced a delay to our development plans for Tando Allah Yar and Sinjhoru fields, due to a contractual dispute which will mean that the commencement of the production from these fields will be pushed back to 2009. This will, however, be offset by other new fields such as Mela-I, which will be in production by June 2007.

Planned capex will therefore be lower for the 2006/7 financial year, reflecting the revised work schedule. We remain on target to achieve a compounded annual growth rate of 13% for gas and 14% for oil for the three years ending June 2009.

Pakistan is an area of significant hydrocarbon potential, one which we have a rich working experience in tapping. During the period under review 15 wells were spudded, including the drilling of four development wells at Rajian-04A, Lashari centre-06, Dhodak-10A and Thora-05. These wells are currently under drilling and, upon completion, will contribute to this year's production targets.

The exploration team 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. During the first half of the year, 1,951 linear Kms of 2D seismic Survey was carried out in on-shore areas. 248sq.Kms of 3D seismic survey work was carried out in Indus Delta-A block of off-shore area.

In particular, offshore presents a source of significant geological potential. This is a new area for OGDCL; given the significant resources potential, OGDCL is positioning to capitalise on this, and our existing joint venture with Shell and our recently announced JV with Petrobras.

I will now pass on to Mr Aftab Ahmad, our Executive Director of Finance and CFO, to take you through the financials.

Aftab Ahmad: Thank you, Mr Hyder. We are now on slide 8. On this slide we are trying to show how, despite the increase in our expenses, which has increased in line with our heightened exploration activities, we have managed to maintain a healthy net profit, and we have shown the revenue and expenditure from our interim results last year. Our focus has been on to grow without sacrificing profitability and, as you can see, we have managed to achieve this target.

Moving on to the next slide, on this slide you can see the strong financial performance that we have produced during the period. Sales grew by 15.2% and the operating margin was 59%, and net profit margin was 46%.

Despite our increase costs due to increased exploration activity, we grew profit after tax by 14.5% and earnings per share up 14.6%.

The Board has also declared a second interim dividend of PKR1.75 per share, which is in addition to the first interim dividend of PKR1.75 per share already declared for the year, giving a

total of PRK3.50 per share for the half year ending December 31st 2006. This will be paid to shareholders on the register as at April 13th 2007.

With this I now pass it back to Mr Nasar for a quick summary.

Arshad Nasar: Thank you, Aftab. In summary, our key business strategy going forward is the delivery of sustained production growth whilst maintaining our low-cost operator status.

We look forward to further exploit our exploration and drilling expertise and expand our exploration blocks offshore.

We will also look to assess potential offshore opportunities on a case by case basis. We are keen not to be caught in value-destroying bidding wars for international E&P assets, as we are committed to maximising shareholder returns. Therefore, any international expansion projects will 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.

With this, we conclude our presentation for today and would like to open the call for questions.

Operator: Thank you, gentlemen. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touchtone telephone. If you are using a phone with mute function, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press *1 on your touchtone telephone to ask a question. If you find that your question has been answered you may remove yourself by pressing *2. We will pause for just a moment to give everybody an opportunity to signal for questions.

Once again, if you would like to ask a question please do so by pressing *1. We'll take our first question now from Chris Shiu from Goldman Sachs. Please go ahead.

Kelvin Koh: Hi, this is Kelvin Koh from Goldman Sachs, together with Chris Shiu. Just a quick question for the management team: could you update us on the progress of discussion with government on the price adjustment for the Qadirpur gas field?

Najam Hyder: The discussions by OGDCL, along with its partners, with the government are on track. There will be a few more rounds of discussion during the next week and we expect this to be concluded in the next month or so.

Chris Shiu: Thank you.

Operator: Once again, if you would like to ask a question please press *1 on your telephone keypad now. We have a question now from Graham Cunningham from Citigroup, please go ahead.

Graham Cunningham: Hi, just a quick question about production growth. Can you update as to what sort of production growth you are looking for, for crude oil and for total production growth for fiscal 2007 now and also maybe give a little bit more colour as to what has caused the reduction in the expectation for 2007 growth?

Najam Hyder: This here is Najam Hyder. We are implanting some programmes. There has been some decline in our wells in productivity, but that has been made up. We are developing the new field of Mela-1 which was discovered last year around September on fast-track basis, which we expect to be on production around April, which will add substantially to our production.

Similarly, another pipeline in the south to take production from Bobi both of oil and gas has been brought forward and is expected to be commissioned by 15th March; again adding production for

both oil and gas to overall target. We are expecting to substantially make up whatever has been the shortfall in the first half.

Graham Cunningham: But are you maintaining the target for 21% growth in crude oil production in 2007?

Najam Hyder: We will be close to it. At this point in time it is difficult to comment exactly on the 21% number.

Graham Cunningham: What percent growth in the second half?

Najam Hyder: We are on target to achieve the 3-year CAGR of 13% (gas) and 14% (oil).

Graham Cunningham: Ok, thank you

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

Pardon the interruption, we actually have a follow-up question from Chris Shiu from Goldman Sachs.

Chris Shiu: Hi, just a quick follow-up question. We have seen in the press recently that there has been some progress in discussions, I think, between Pakistan and Iran and our potential gas imports from the later. Could you maybe comment a little bit about this and if OGDCL has any direct role to play if such a project gets sanctioned?

Arshad Nasar: We do not – this is Arshad Nasar – we do not have any direct role in terms of this pipeline. The discussions are still going on amongst the representatives of Iran, India and Pakistan. We do not know more than that.

Chris Shiu: Thank you.

Arshad Nasar: Are there any further questions, operator?

Operator: We have just got a question in now actually from Stuart Smith from Merrill Lynch.
Thank you

Stuart Smith: Good afternoon, gentlemen, just a quick question or a couple of questions on exploration. You mentioned you started eight wells during the quarter; how many of those were completed, how many is still drilling at quarter end to get to the full discoveries? Secondly, can you give some sort of indication of the resource potential of the discoveries you made? And then lastly, an outline of the deep water programmes happening in the second quarter, or the second quarter of the calendar year I should say.

Arshad Nasar: By the end of the last half year, we had fifteen wells and they are under drilling. It is difficult, or very speculative, to give potential on the basis of one well and its initial testing. However, we are assessing the potential of these discoveries. We are on target to achieve the targeted 41 wells during this financial year.

Stuart Smith: Yes, thank you for that. And you also mentioned that you have contracted a trans-ocean rig; how many wells do you expect to drill with that rig?

Aftab Ahmad: This is Aftab. Trans-ocean rig will be coming to Pakistan to drill only one well offshore Pakistan, which is the Shell operated Block E well, and then it will sail to India on a three-year contract. So there is just one well which will be drilled offshore Pakistan during this year.

Stuart Smith: Excellent, thank you.

Operator: Thank you. As a final reminder if you would like to ask a question please press *1 on your telephone keypad now. Mr Nasar, there seem to be no further questions at this time I'd like to hand the call over to you for any additional or closing remarks. Thank you.

Arshad Nasar: Thank you, operator, and thank you all for joining our call today. We appreciate your time and look forward to speaking with you again in the near future.

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