

Oil and Gas Development Company Limited

Conference Call on Full Year Results FY 2014 (July 2013 – June 2014)

Presenters: **Mr. Muhammad Rafi (Managing Director / CEO)**
 Mr. Mushtaq Ahmad (Chief Financial Officer)
 Mr. Muhammad Aslam Khan Niazi (Executive Director – Production)
 Dr. Muhammad Saeed Khan Jadoon (Executive Director – Exploration)

Date: **Tuesday, August 05, 2014**

Time: **4:30 PM (Pakistan Standard Time)**

Operator: Good day ladies and gentlemen and welcome to the Oil & Gas Development Company Limited (OGDCL) Full Year Financial Results 2014 Conference Call. At this time I would like to turn the conference over to Mr. Muhammad Rafi, Managing Director / CEO, OGDCL. Please go ahead Sir.

Mr. Muhammad Rafi: Ladies and gentlemen, a very good day to all of you. Before I start today's presentation on the OGDCL's Full Year Financial Results for the year 2014, I will request you to kindly go through the disclaimer for a minute or two at the beginning of the presentation that has already been uploaded to Company's website by our investor relations team.

Ladies and gentlemen, I am very pleased to inform you that during the year 2013-14, OGDCL has earned a record net profit of Rs 123.915 billion. OGDCL being the biggest upstream player in Pakistan enjoys the largest share of exploration acreage in the country which stands at 31% of the total awarded acreage. OGDCL holds 58% of the country's recoverable oil reserves and 41% of the country's recoverable gas reserves as of December 31, 2013. In terms of production, during May 2014 OGDCL delivered 30% of Pakistan's gas output and 45% of Pakistan's oil output. Our remaining 2P recoverable reserves estimates (which are based on 3rd Party Reservoir Consultant study by M/s Bayphase Limited of UK covering approx. 90% of OGDCL's reserves) as of June 30, 2014 stood at an impressive 939 million barrels of oil equivalent. OGDCL has a portfolio of 84 fields out of which 68 fields are 100% owned and operated while 16 are

non-operated fields where we act as non-operators having joint venture agreements with foreign partners as well as local E&P companies.

Due to our long track record of working in varied geological terrains of Pakistan, we have acquired an unmatched E&P expertise in our operations which is spread all over Pakistan. On the production volume side OGDCL witnessed a net increase of 3.1% in crude oil production and 5.9% in net gas production when compared to the last year.

During the year under review, OGDCL was able to spud 17 wells, (8 exploratory / appraisal and 9 development wells) and Company's exploratory efforts to discover new hydrocarbon reserves yielded two (2) new oil and gas discoveries at Saand-1 and MaruEast-1, respectively.

Moving on to slide # 4 you see a map which clearly shows OGDCL's dominant position in all the prospective areas of Pakistan. I am glad to inform you that OGDCL, with an aim to enhance its exploration portfolio, holds the largest exploration acreage in the country which as of June 30, 2014 stood at 112,794 sq. kms. This increase in the exploration acreage is attributable to an acquisition of 29 new exploratory blocks through competitive bidding of petroleum exploration rights by Directorate General of Petroleum Concessions, Ministry of Petroleum & Natural Resources in March 2013 and formally awarded to the Company during the reporting period. Our exploration licenses portfolio is spread across all provinces of the Country with 9 in KPK, 15 in Punjab, 12 in Sindh, 24 in Balochistan and 2 in offshore areas of Pakistan.

Ladies and gentlemen, I will now ask Mr. Mushtaq Ahmad, Chief Financial Officer to take you through the next slide of this presentation.

Mr. Mushtaq Ahmad: Ladies and gentlemen, this is Mushtaq Ahmad, Chief Financial Officer of OGDCL. Turning to slide # 5, OGDCL's financial results for the year 2013-14 reflect stable performance as its sales revenue and Profit Before Taxation surged to Rs 257.014 billion and Rs 153.110 billion respectively, exhibiting growth of 15.1% and 35.8%. These financials are primarily driven by an increase in production coupled with favourable exchange rates. In addition an increase in realised price of crude oil and gas averaging US\$ 87.71 per barrel and Rs 282.95 per Mcf

compared with US\$ 83.40 per barrel and Rs 265.88 per Mcf, respectively during the preceding year, also contributed positively to the Company's financial growth. In order to maintain the liquidity position and to ensure smooth running of the Company's exploration, development and production activities, efforts for recovery of the overdue receivables continued during the year under review. In this connection, the Company's Management carried out vigorous follow-ups for recovery of receivables simultaneously requesting GoP, for early resolution of prevailing inter-corporate circular debt issue. As a result of these efforts, the Company witnessed higher receivable collection in comparison with previous years. This has led OGDCL to register a Profit After Tax of Rs 123.915 billion translating into earnings per share of Rs 28.81. Operating profit margin and net profit margin stood at 60% and 48%, respectively. In addition, the Directors of the Company today approved a final payable cash dividend of Rs 3.00 per share for the year.

I now hand over the presentation to Dr. Muhammad Saeed Khan Jadoon who is OGDCL's Head of Exploration to continue with this presentation and to take you through the next slide.

Dr. Muhammad Saeed Khan Jadoon: Thank you very much. Good day, ladies and gents, this is Dr. Muhammad Saeed Khan Jadoon, Executive Director (Exploration) and I will be taking you through slide # 6. During the year, OGDCL spud 17 wells including eight (8) exploratory/appraisal wells, Jakhro West-1, Maru East-1, Manna -1, Chak 25 C-1, Hanif-1, Pali Deep-1, Zin SML-3 and Saand-2 and nine (9) development wells namely Qadirpur 50, 51, 52 & 53, Qadirpur HRL-8, Kunnar Deep-9, Rajian-8, Pasakhi-Deep-4 and Chak-5 Dim-22. Moreover, drilling of ten (10) wells spud in the previous fiscal year, Jand-1, Soghri-1, Jakhro West-1, Zin Deep-1, Aradin-1, Kalchas-1, Kohat-1, Baho-5 & 7 and Mela-4, also continued during the year under review. As of June 30, 2014, the Company held the largest exploration acreage in the Country covering an area of 112,794 sq. kms. This includes 62 owned and operated exploration licences. Additionally, OGDCL also have working interest ownership in six (6) blocks operated by other companies. Exploration and appraisal success continued during the period under review yielding two new oil and gas discoveries as explained earlier to you i.e., Saand-1 and Maru East-1 both in Sindh Province. During the period under review, the seismic crew of the Company acquired 1,807 line kms of 2D and 867 sq. kms of 3D seismic data.

Now I hand over to Mr. Muhammad Aslam Khan Niazi, Executive Director Production, who will take you through the next couple of slides.

Mr. Muhammad Aslam Khan Niazi: Hello every one, This is Aslam Khan Niazi and I am Executive Director Production. Let's move on to slide # 7. During the year under review, the Company witnessed an increase of 3.1% in its net crude oil production, owing to start up of Nashpa 4, Qadirpur 47, 49 & 50, Rajian 7&8, Chak 5 Dim South-2 and Qadirpur HRL 7&8 coupled with tie in of Uch-20, 21, 25, 26, 28, 31 & 32 and an increase in OGDCL's share in non-operated JV fields. It's worth mentioning here that OGDCL added 8,500 barrels per day of crude oil and 270 MMcf per day of gas through workover jobs and addition of new wells. This resulted in an increase of 5.9% to the Company's net gas production during the year. Increase in production from Jakhro, Maru East, Dachrapur, Daru fields and production start-up from Uch-II development project, were the major drivers of this growth in gas production.

Going over to slide # 8, which shows the latest status on our various development projects. OGDCL endeavours to expedite the development work pertaining to its Kunnar Pasakhi Deep / Tando Allah Yar, Sinjhor, Uch-II, Jhal Magsi, Nashpa / Mela and Suleman. Upon completion, these development projects are anticipated to render significant enhancement in the crude oil, gas and LPG production, thus supporting Company's growing trend of production in the years to come. In this connection, the Company started supply of gas from its Uch-II project to M/s Uch-II Power Limited under interim arrangements with effect from February 2014.

Now I will ask Mr. Mushtaq Ahmad, our CFO to continue with this presentation.

Mr. Mushtaq Ahmad: Ladies and gentlemen, looking at slide # 9 which shows a graphical illustration of our financial performance, here we see significant growth in net sales which I touched upon earlier on slide # 5. Operating expenses increased by 32.8% mainly on account of increase in amortisation, JV expenses, salaries / allowances, and in contract services.

The exploration and prospecting expenses decreased by 41.8% mainly due to decrease in cost of dry wells i.e., 5 wells were dry during the current year as compared to 10 wells in corresponding

year. NPAT increased by 35.8% due to increase in sales, other income and decrease in exploration and prospecting expenditures and savings in tax for the year.

Turning to slide # 10, showing a healthy snapshot of the Company which is evident from the Key Performance Indicators stated therein. To take the presentation to conclusion, I now hand over the presentation back to our MD/CEO.

Mr. Muhammad Rafi: Welcome once again ladies and gentlemen. I would like to inform you that the cumulative dividend per share for the year 2013-14 totalled Rs 9.25 compared with last year cumulative dividend of Rs 8.25 per share. Similarly, during this year Company's operating profit, EBITDA and net profit margins have also increased.

Ladies and gentlemen, OGDCL's management is fully focused on achieving consistent growth in production volumes of the Company. OGDCL is also fully committed to ensure speedy development of its ongoing projects. We plan to achieve our reserves and production growth through implementing international best practices across all our operations.

Last but not the least, OGDCL's focus on production growth is very much in line with our firm belief of caring about the environmental issues where our operations are based and also to significantly contribute to the welfare of communities in the vicinity of our operations.

This, ladies and gentlemen, concludes our presentation for today and I thank you all for joining in the conference call. We now ask the operator to conduct a question and answer session which we expect to be not more than 15 minutes duration.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has already been answered you may remove yourself from the queue by pressing *2. Again that's *1 to ask a question. We will pause for just a moment to allow everybody to signal.

We have our first question from Asad Siddiqui of AKD Securities. Please go ahead, your line is open.

Asad Siddiqui: Good day gentlemen and many congratulations on Company's fantastic results. I just wanted to know what is the capital expenditure outlay the Company has for fiscal year 2014-15?

Mr. Muhammad Rafi: We are targeting around Rs 80-85 billion as CAPEX during the FY 2014-15 which includes drilling of wells, completion of our ongoing projects and further investment in the plant and equipment.

Asad Siddiqui: How many exploratory and development wells is the Company planning to drill in the coming FY 2014-15?

Mr. Muhammad Rafi: We have developed a very hectic drilling schedule for the year 2014-15 and our plan is to drill 35 wells in total. Out of these, 19 will be exploratory / appraisal wells whereas 16 will be development wells.

Asad Siddiqui: To further carry on with that question, which specific locations is the Company planning to drill its development wells in?

Mr. Muhammad Rafi: Our wells are located throughout the Country as are our exploration concessions; we are currently holding 62 exploration licenses throughout the Country and similarly our wells will be drilled throughout Pakistan.

Asad Siddiqui: So there is no specific area that you will be targeting? No high impact area that should be first on your list?

Mr. Muhammad Rafi: The drilling plan has been devised based on our assessment of potential of finding hydrocarbons in various regions where we have conducted seismic operations

Asad Siddiqui: Ok. What is the volume for gas and oil that the Company is targeting for the next FY 2014-15?

Mr. Muhammad Rafi: We are planning to touch daily production of 45,000 barrels of crude oil and around 1,300 million cubic feet of gas during FY 2014-15.

Asad Siddiqui: Ok. Company witnessed a significant increase in Other Income head in the fourth quarter. It is nearly Rs 5 billion as opposed to Rs 2.25 billion in the previous quarter. What is the main reason of that jump in Other Income?

Mr. Muhammad Rafi: The main reasons are our return on the term deposits of the bank, interest income on PIBs and TFCs. The 3rd factor is the reduction in loss due to the conversion of foreign exchange.

Asad Siddiqui: Basically you are saying that the interest from payables that you have received is the prime impetus for the growth, but don't you accrue this on an equal basis throughout the year?

Mr. Muhammad Rafi: We do accrue this on an equal basis but then as I mentioned there were other factors as explained earlier.

Asad Siddiqui: Sir, just one last question. How do you see the prospects in your field / blocks, in Balochistan, particularly in Zin SML. What are your views / plans for that particular block going forward?

Dr. Muhammad Saeed Khan Jadoon: We had very good success in the Zin field. We had success in all four wells and we are also drilling a deeper well. Zin is a prospective block and we are having good results so far.

Asad Siddiqui: Sir, can we assume that the Balochistan area is of high impact in nature and the Company would be focusing more towards Balochistan area as compared to other areas?

Mr. Muhammad Rafi: Actually, we are focusing in all the prospective areas and, not just only in Balochistan but also in the Sindh Province, in Punjab as well as in the Khyber Pakhtunkhwa. So

we have adopted a balanced approach and our focus this year will be on greater and greater exploration activities, not only in the shape of acquiring higher seismic data but also in the shape of increase in the number of exploratory wells.

Asad Siddiqui: Thank you very much, gentlemen, that's all.

Mohammad Fawad Khan: My question is on Zin block. I just wanted to know if the Company has talked of some development plan on the discovery in Zin and if it has, when should we expect start of development activity at Zin?

Dr. Muhammad Saeed Khan Jadoon: Currently, we are appraising this block and after having it appraised by drilling more wells including deeper ones, we will be chalking out a complete development strategy for these wells. We are working on the various development options. However, a firm development plan will only be finalized after proper evaluation of the deeper prospects.

Mohammad Fawad Khan: Regarding Sara West, which I understand is a low BTU gas field, has OGDCL made any development plan on this particular field as yet?

Mr. Muhammad Aslam Khan Niazi: Actually, from this field, gas is allocated to a fertiliser plant and we are currently negotiating with them. After finalisation of the negotiations, we will develop this field and install the processing facilities accordingly.

Mohammad Fawad Khan: Ok, my 2nd question relates to the oil exploration drilling targets that were earlier discussed. The target this year is 35 wells, out of which 19 wells have been allocated for the exploration. I just wanted to know how many exploration wells fall in security related region / contingent?

Mr. Muhammad Rafi: This year, I don't think there is any well except one, and for that also we are seeking security clearance, but all the other exploratory wells identified so far are clear for the purpose of drilling.

Mohammad Fawad Khan: Any particular reason that the drilling in the last year (FY 2013-14) has been quite slow compared to past three years' average?

Mr. Muhammad Rafi: Actually, if you look at our wells spud in during the last year, you may see that there were a number of wells that were carried forward from the previous year and you will be pleased to know that those wells are nearing completion. Also some of those wells were in the Northern & Potohar Regions with depths as deep as 6,000 m. etc. , Because of their depth, deeper wells took more than planned time therefore, the number of wells could not be increased during the past year.

Mohammad Fawad Khan: Just a follow-up question, I was going through your detailed accounts. Its mentioned there that the Company has booked higher amortisation because of the revision in the reserves. I just wanted to know on which field the Company had downgraded the reserves and what's the quantum of downgrade of reserves.

Mr. Muhammad Rafi: Actually, in the calculation of amortisation, there are two factors. One is the capital costs. During the FY 2013-14, 37 wells were capitalised, leading into higher development costs and because of that increase in the development expenditure which is booked as a capital expenditure, resulted in higher amortisation cost. Furthermore, OGDCL have its hydrocarbon assets evaluated from a 3rd Party Reservoir Consultant, M/s Bayphase Limited of UK. The study is expected to be completed by the end of September 2014.

Mohammad Fawad Khan: Ok, thank you.

Operator: We take our next question from Suleman Maniya of JS Investments. Please go ahead, your line is open.

Suleman Rafiq Maniya: Hello, good evening, everyone. The 1st question which I have is that you have mentioned gas production target for the year will be about 1.35billion cubic feet per day. I just

wanted to ask you which areas are you actually looking at which will help you realise this increase?

Mr. Muhammad Rafi: The expected increase in gas production will come from Uch-II, KPD-TAY, Sinjhero and Suleman development projects. So all these increases would contribute to higher gas production volumes in the current year which is 2014-15.

Suleman Rafiq Maniya: Regarding KPD / TAY, is the project going to be online by December 2014 or do you still expects some delays and what will be gas pricing from KPD/TAY project?

Mr. Muhammad Rafi: As far as the completion is concerned, we are right on target and expect to complete it by the end of December 2014. As regards the pricing, we are in negotiation with M/s SSGCL and hopefully the agreement will be finalised very soon.

Suleman Rafiq Maniya: Ok. Looking at your financials, your tax, effective taxes is lesser this year. One of the reasons is probably because of higher other income but what's the other reason?

Mr. Muhammad Rafi: Our CFO Mr. Mushtaq Ahmad will answer this question.

Mr. Mushtaq Ahmad: This is Mushtaq Ahmad. The main reason for lower tax is that in the previous year, a demand notice was issued by the tax authority. As a result of that, the Company paid higher tax, to the tune of Rs 10 billion. That Rs 10 billion has not been paid during this year and by that amount, the tax is lower. Also during this year, we received tax credit as a result of successful litigation with tax authorities.

Suleman Rafiq Maniya: Ok, and in the future, do you expect your tax rate to be at current levels or how do you see it going forward?

Mr. Mushtaq Ahmad: Normally, we will maintain our tax keeping in view our sales as well. If sales will increase, and Other Income will increase, proportionally tax will also increase.

Mr. Muhammad Rafi: Please also note that tax calculation is independent and it is done as per tax laws. You know, in Pakistani tax law, installations which are 100% below-the-ground are allowable expenditure. So the real calculation of tax depends on all these factors, sales, capital investments, depreciation allowance, depletion allowance, below-the-ground installations etc.

Suleman Rafiq Maniya: Ok, just two last questions which we have. Firstly, what amount is still un-booked income with OGDCL with regard to your PIB investment?

Mr. Muhammad Rafi: There is no un-booked income on account of PIB.

Suleman Rafiq Maniya: So there are no un-booked gains as well?

Mr. Muhammad Rafi: There is nothing unbooked. We follow accrual-based accounting system in line with the International Financial Reporting Standards.

Suleman Rafiq Maniya: Ok, and looking just at your payout ratio, it's gone down a bit compared to last year. So going forward, do you expect the ratio to probably go up or how do you see that?

Mr. Muhammad Rafi: Actually, if you look at the earnings per share, this year the earnings per share have increased by about 33%. So in terms of rupee per share, the dividend has gone up by one rupee but in terms of payout it may be slightly less compared with the previous year.

Suleman Rafiq Maniya: Does the Company expect the payout to be at 2014 levels or should we expect increased payout in the next year as the Company get the benefit of improving circular debt?

Mr. Muhammad Rafi: As you know, the profitability of the Company increased, the liquidity position was also better. So the dividend was higher. The decision on dividend amount rests with the Board of OGDCL. The Board looks at a number of factors while deciding upon the dividend at a particular point in time. These include the liquidity position at that point in time, the capital expenditure requirements etc. But if you look at the history, during last three years the Company's dividend was on the upward-rising trend.

Suleman Rafiq Maniya: Ok, just last question, Sir. Before the GDR, it was stated that you will do a reserve appraisal by some international company. So although you have just mentioned in the presentation, could you tell us when will this number be available to us, the new reserve estimates?

Mr. Muhammad Rafi: The 3rd party reserves evaluation consultant is M/s Bayphase Limited of UK which has been engaged to carry out at the reserves evaluation of all OGDCL's hydrocarbon assets. It is expected that by end September 2014, they will issue a report covering 100% of Company's total reserves.

Suleman Rafiq Maniya: Ok, thank you.

Mr. Muhammad Rafi: Thank you. The next question may be the last question.

Operator: We'll take our final question from Amreen Hirani of Habib Metro. Please go ahead, your line is open.

Amreen Hirani: Hello, everybody. I had a question related to your exploratory activity. There was a news article a few days back in a newspaper related to Kohlu, the area of Balochistan that exploration already has been resumed; and a reserve number of 22 trillion cubic feet. Could you shed some light on that, the status of that block as of now?

Dr. Muhammad Saeed Khan Jadoon: We are planning to have a few development wells in Balochistan area. It will be premature to comment on the reserve number at this point in time.

Muhammad Amreen Hirani: Ok. Can we get an estimated timeline for the production or exploratory results to come out?

Dr. Muhammad Saeed Khan Jadoon: We are not planning an exploration well in Kohlu Concession in this year; however, we are targeting to drill two wells in Pirkoh field, three wells in Loti field alongwith another well in Jhal Magsi, all of which are located in Balochistan province.

Amreen Hirani: Ok, thank you so much.

Mr. Muhammad Rafi: Ladies and gentlemen, thank you very much for participation in OGDCL's full year financial results FY 2014 conference call. I thank you all once again.

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