

**CONFERENCE CALL ON OGDCL HALF YEAR RESULTS FY2014 (JULY- DEC 2013)**

**Presenters: Mr. Muhammad Riaz Khan, MD/CEO  
Mr. Muhammad Rafi, Executive Director (Finance)/CFO**

**Date: Monday, 3<sup>rd</sup> March 2014**

**Time: 9:30 am (PST)**

**Operator:** Good day, ladies and gentlemen, and welcome to today's OGDCL Half Year FY2014 Results conference call. At this time I would like to turn the call over to your hosts today, Mr. Muhammad Riaz Khan, MD/CEO OGDCL and & Mr. Muhammad Rafi, CFO OGDCL. Please go ahead, sir.

**Mr. Muhammad Riaz Khan:** Ladies and gentlemen, Good morning and good afternoon, I am Muhammad Riaz Khan MD and CEO of OGDCL. I welcome you all to OGDCL's Half-year results FY2014 conference call. I believe all of you have received OGDCL's Half-year results FY2013-14 conference call presentation which our Investor Relations team has sent you a short while ago. It is also available for download from our website, at ***www.ogdcl.com***.

Let's start on slide 2 of the presentation where I'll ask you to go over the legal disclaimer. I will take a short pause while you read the legal disclaimer.

Hope you have gone through the legal disclaimer so we proceed with the presentation. For those of you who have just recently started following up on the Company, you may want to know that OGDCL is the largest upstream player in Pakistan. The Company enjoy the largest share of exploration acreage in the country and as of 30<sup>th</sup> June 2013, it held 58% of the country's recoverable oil reserves and 42% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 28% of Pakistan's gas output and 52% of its oil output. Our remaining 2P recoverable reserves estimates, as at December 2013, stood at an impressive 997 million Barrels of Oil Equivalent. OGDCL have a portfolio of 72 fields out of which 57 fields are 100% owned and operated while 15 are non-operated fields where we act as non-operators having Joint Venture

agreements with foreign as well as local E&P companies. We have extensive experience in operating in all the varied geological terrains of Pakistan and hence have acquired expertise, which is second to none. On the production volume side, OGDCL witnessed 2.5% increase in its net crude oil production, while at the same time registered a 5.9% increase in its net gas production when compared to last year. During the period under review, OGDCL was able to spud 7 wells (2 Exploratory/Appraisal and 5 Development wells) and Company's exploratory efforts to discover new hydrocarbon reserves yielded an oil and gas discovery at Saand-1 well in Sindh province.

Turning to slide 4, you can see on the map clearly showing OGDCL's dominant position in all the prospective areas of Pakistan with a table showing the province-wise break-up of our operated and non-operated exploration Licences. I am glad to inform you that OGDCL acquired twenty nine (29) new blocks in the recently held bidding round. Seven out of these 29 blocks have recently been formally awarded to the Company. These new Exploration Licenses are Baratai, Parkini-B, Rasmalan, Armala, Ranipur, Ladhana and Fatehpur. To carry on with the presentation, I will now ask Mr. Muhammad Rafi, Executive Director (Finance) & CFO, and other heads of departments to take you through the next few slides of this presentation.

**Mr. Muhammad Rafi:** Ladies & gents, this is Muhammad Rafi, Executive Director (Finance) & CFO of OGDCL. Turning on to slide # 5, OGDCL's financial results for the half year 2013-14 reflected stable performance. Company's Sales Revenue and Profit after Taxation surged to Rs 126.170 billion and Rs 67.227 billion respectively depicting a decent growth of 14.1% and 36.3%. These improved financials translated into Earnings per Share of Rs 15.63 per share. The results were primarily attributable to increase in production complemented by favourable impact of the exchange rate and increase in realized prices of crude oil, gas and LPG averaging US\$ 87.45/barrel, Rs 278.62/Mcf and Rs 84,927/ton, respectively. Operating profit margin and net profit margin stood at 62% and 53%, respectively. In addition, the Directors of the Company today approved a payable second interim cash dividend of Rs 2/share for the quarter ended December 31,

2013. I now hand over the presentation to Dr. M. Saeed Khan Jadoon, who is OGDCL's head of exploration to continue with this presentation and take you through the next slide.

**Dr. M. Saeed Khan Jadoon:** Good day, Ladies & gents, I am head of exploration, and will be taking you through slide 6. During the reporting period, seven (7) wells were spud out of the twenty two (22) marked well locations. These spud wells included two (2) exploratory/appraisal wells namely Jakhro West-1 & Zin SML-3 and five (5) development wells namely Qadirpur-50, 52, Kunnar Deep-9, Rajian-8 & Chak 5 Dim-2. Subsequently, the Company spud an exploratory well Maru East-1 and a development well Qadirpur-51 during the month of January 2014. OGDCL held the largest exploration acreage in the Country covering an area of 51,307 square kms spreading over Company's thirty three (33) owned and operated joint venture (JV) exploration concessions. In addition, the Company holds working interest in six (6) blocks operated by other Exploration & Production companies. During the month of February 2014, the Company was granted seven more exploration licences which were already touched upon in the earlier slide by our MD/CEO. Exploration and appraisal success continued during the period under review. The first half of the year 2013-14 witnessed another success with the discovery of Saand-1 exploratory well in Nim concession, Sindh province. OGDCL acquired 962 line kms of 2D and 433 square kms of 3D seismic data in blocks namely Mianwali, Dakhni, Nashpa, Pali, Nur-Bagla, Bitrism, Chanda, Mela and Channi Pull. In addition, the Company carried out 94 line kms of regional geological field work in Central Salt Range and also processed 1,874 line kms of 2D seismic data of various blocks using in-house resources. Now Mr. Aslam Khan Niazi, head of Production will take you through the next couple of slides

**Mr. Aslam Khan Niazi:** Hi everyone, this is Aslam Khan Niazi and I am Executive Director Production. Looking at slide 7, we see that Company's net crude oil production increased by 2.5% owing to commencement of production from Nashpa-4 and Sinjhora

& Jakhro fields accompanied by increase in share of crude oil production from our non-operated JV fields, while our net gas production augmented by 5.9% primarily on account of increase in production from Uch, Nandpur/Punjpri, Nashpa, & Kunnar fields in conjunction with start-up of production from Sinjhoru & Jakhro fields.

Now moving on to our next slide, where an update on our development projects is given, it is evident that significant increase in our production volumes is expected to come within the next 18 months or so. The Company is making all out efforts to expedite the development of its ongoing projects and bring the new discovered hydrocarbons on commercial production. I now ask Mr. Muhammad Rafi, our CFO to continue with this presentation.

**Mr. Muhammad Rafi:** Hello again. I am taking you through slide number 9 which presents a financial snapshot of the Company. Here we see a very encouraging trend with respect to increase in our Sales Revenues as well as in Net Profit after Tax figures. In line with an increase in the Net Sales figure, the Operating expenses have gone slightly higher due to the increase in our transportation expenses, amortization expenses, social welfare expenses towards locals and increase in wages.

Turning to Slide 11, which displays the key financials of the Company. Looking at the figures of our Key Performance Indicators (KPIs), robust financial strength of the Company is depicted. To take the presentation to conclusion, I now handover the microphone back to our MD, Mr. Muhammad Riaz Khan.

**Mr. Muhammad Riaz Khan:** Hello again. OGDCL's Management is fully focused on achieving consistent growth in production volumes of the Company. To this end we are on a constant pursuit of conducting successful exploration with a view to increase our reserves base. OGDCL is also fully committed to ensure the speedy development of our projects in the pipeline. And we plan to achieve the production and reserves growth through implementing international best practices across all our operations. Finally, we plan on achieving all this production growth by leaving a minimal impact on the

environment and at the same time enhancing the welfare of communities where our operations are located.

*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 Q&A session which we expect to be not more than 15 minutes duration.*

**Operator:** Thank you, we will now hold for questions. If you like to ask questions please press \*1 on your telephone.

**James Hubbard:** I would start off till the questions line up. I would just ask the management team to remind us on the CAPEX plan for this year 2014 and what production volume is expected by the end of this year if your development plans go according to schedule?

**Mr. Muhammad Rafi:** Our CAPEX plan for this year is around USD 900 million as our main development projects are being executed in this year. As regards production, we plan to increase our production to around 44,000 bbls/day by the end of this fiscal year.

**James Hubbard:** Ok. Thank you.

**Operator:** Our next question comes from Mr. Ali Asghar from UBL Funds from Karachi.

**Mr. Ali Asghar:** Assalam-o-Alikum. The first question I would like to ask is a about additional production from Kunner Pasakhi that you expected to come online by June 2014, is there any particular reason for the delay in KPD project?

**Mr. Muhammad Riaz Khan:** The delay in the KPD project is due to the delayed delivery of some of the long-lead items required for completion of the project. We are currently producing around 120 mmscfd of gas and more than 1,000 bbls/d of oil from KPD. Furthermore, our annual production volumes will increase from other fields also and is not limited to KPD. The production increase is expected from Nashpa, Mela, Uch-II and Sinjhoru fields. And this expected overall increase for the year will counter the negative impact of the natural depletion in our mature fields.

**Mr. Ali Asghar:** Ok, just one last question. What are the management expectations on the potential reserve base of Zin field considering three testing wells have already been drilled?

**Mr. Muhammad Riaz Khan:** Presently, we are drilling another appraisal well and an independent study has to be conducted to arrive at some conclusive reserves number for the Zin field. Right now, it is premature to state anything on the reserves of Zin field.

**Mr. Ali Asghar:** Ok. Thank you.

**Fawad Khan:** I just wanted to know if there is any update on shale gas which the government has drawn out in terms of policy, pricing and royalty etc.

**Mr. Muhammad Riaz Khan:** As far as OGDCL is concerned, we have already planned to undertake shale study at our two wells. We are fully aware of our responsibility to find the true potential of shale hydrocarbons in the blocks awarded to OGDCL. As far as the pricing is concerned, it is with the ministry and they are working on it.

**Fawad Khan:** Thank you.

**Operator:** Next question comes from Mr. Vahaj Ahmed of Topline Securities from Karachi.

**Mr. Vahaj Ahmed:** In the 2012 petroleum policy, Ministry of Petroleum and Natural resources allowed some concessions on fields which were discovered earlier to be priced under new policy, any progress on that? Can you please slightly elaborate on any fields that would be priced under the new petroleum policy? Thank you.

**Mr. Muhammad Riaz Khan:** About the 2012 Petroleum Policy, OGDCL has already applied for the conversion option of some of its assets as per the conversion clause in the 2012 Petroleum Policy.

**Mr. Vahaj Ahmed:** Thank you.

**Fawad Khan:** On the Nashpa and Mela project which is expected to come online during July 2015, the production would be somewhere around 24,000 bbl/d. Can you provide some

clarity if this is the net additional production from the two fields or will it take the total production to this tally?

**Mr. Muhammad Riaz Khan:** After completion of the Nashpa and Mela project, the company expect the cumulative production from both these fields to be around 25,000 bpd of oil, 80 MMscfd of gas and around 350 Mtpd of LPG.

**Fawad Khan:** Thank you sir. This is a follow up question on the same issue. On the Mela project, it mentions that the production has declined in the 1H FY2014; can you tell the reason for this decline and possible time line for the production recovery on the field if any?

**Mr. Muhammad Riaz Khan:** We are in the process of drilling an additional well in Mela field to arrest this decline. We are on it and closely watching this field.

**Fawad Khan:** Thank you.

**Operator:** Thank you. Our next question comes from Mr. Asir Zaffar from Optimus Capital Management from Karachi.

**Mr. Asir Zaffar:** Assalam-o-Alaikum. My question is regarding KPD, the expected timeline for this project is December 2014, but we know that some of the gas from this project is to be supplied to four fertilizer plants and the ratification is still being awaited from part of the government and from the companies' point it will take at least 9 months to lay the pipeline. Therefore, is there an arrangement to supply this gas to the network in case plants are not ready by December 2014 to utilize this gas?

**Mr. Muhammad Riaz Khan:** The gas allocation from KPD to the fertilizer consortium was done in accordance with Economic Coordination Committee's (ECC) decision. Accordingly, OGDCL signed an agreement with the fertilizer consortium for supply of KPD gas to the fertilizer consortium. There is a pipeline that goes from KPD to SSGCL's network. Once we are ready to supply this additional gas of about 120 MMscfd from KPD, we will put it in the SSGCL's system till such time when the pipeline by the fertilizer consortium is completed.

**Mr. Asir Zaffar:** Thank you. One more question regarding the windfall levy. The levy was introduced in 2001, however, I think the companies are currently not paying the levy which resulted in higher net realized prices of crude oil but we know the levy is applicable in 2012 policy. Therefore, will the policy be applicable to the fields of oil falling under 2012 policy or we can expect this exemption to continue and net realized oil prices to remain high for E&P companies?

**Mr. Muhammad Riaz Khan:** This is an industry wide matter and relates to all E&P companies operating in Pakistan. We believe Government of Pakistan is best suited to provide a response. OGDCL will abide by the directions given by the Government with respect to imposition of Windfall Levy for production of hydrocarbons under the 2012 Petroleum Policy.

**Mr. Asir Zaffar:** Can we expect a decline in net realized price for new fields as compared to old fields such as Nashpa, Mela which have realized oil prices much higher?

**Mr. Muhammad Riaz Khan:** Well it will be dealt with at that point in time when new fields are discovered and brought into production under the 2012 Petroleum Policy. As explained earlier, it is Government's prerogative and cannot be commented on at this point in time.

**Mr. Asir Zaffar:** Ok. Thank you so much

**Operator:** Thank you. Our next question comes from Ms. Ambreen Hirani from Habib Metro Karachi.

**Ms. Ambreen Hirani:** Good Morning. Does the CAPEX plan of USD 900 million also include the Shale gas plan?

**Mr. Muhammad Rafi:** A token provision has been kept for this study on this shale gas as MD has mentioned but major provisioning will be included in our next fiscal year i.e., FY2015.

**Ms. Ambreen Hirani:** Ok. Thank you.



**Operator:** Our next question comes from Mr. Saqib from Hong Kong.

**Mr. Saqib:** Hello. I just have one question with respect to your offshore drilling area. Can you guide us on CAPEX plan for offshore drilling?

**Mr. Muhammad Riaz Khan:** The Company will be allocating CAPEX for drilling of an offshore well in its next fiscal year, when we plan to drill a well.

**Mr. Saqib:** Can you please shed some light on proposed time line on the progress or drilling update for offshore wells?

**Mr. Muhammad Riaz Khan:** The drilling of an offshore well is expected in early 2015, after the end of the monsoon season, in Offshore- Block G which is operated by M/s ENI. OGDCL has a working interest of 25% in the block.

**Mr. Saqib:** Ok, thank you for the clarification.

**Operator:** Thank you sir. There seems to be no further questions at this point in time.

**Mr. Muhammad Riaz Khan:** Once again, I thank you all for joining us in our today's Half-Year FY2014 Results Conference Call.

**James Hubbard:** Ok, I would like to thank the management team for giving us time for presenting this update and also to the participants. With that, this concludes the OGDCL Half-Year Results conference call. Thank you.