Oil and Gas Development Company Limited

Conference Call on Half Year Financial Results FY 2015 (July 2014 – December 2014)

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

Date: **Wednesday, February 4, 2015**
Time: **5:30 PM (Pakistan Standard Time)**

Operator: Good day and welcome to OGDCL's Half Year Financial Results ended 31st December 2014. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Muhammad Rafi, MD / CEO of OGDCL.

Mr. Muhammad Rafi: Dear ladies and gentlemen, a very good day to all of you and I welcome you all to OGDCL Half Year (July-December 2014) Results Announcement Conference Call. I believe that all of you have received the presentation sent by our Investor Relations Team which has also been uploaded to the Company's website. Let us start on page 2 of the presentation where I'll ask you to please go over the legal disclaimer first. I will take a short pause while you read the legal disclaimer.

Ladies and gentlemen, OGDCL being the largest upstream player in Pakistan has the largest share of exploration acreage in the Country which stands at 32% of the total awarded acreage. OGDCL holds 57% of the Country's recoverable oil reserves and 42% of the Country's recoverable gas reserves as of June 30, 2014. In terms of production, during November 2014, OGDCL delivered 29% of Pakistan's total gas output and 45% of the Country's total oil output. Our remaining recoverable 2P reserves estimates as of December 31, 2014 stood at 899 MMBOE. The Company has a portfolio of 84 producing fields, out of which 68 fields are 100% owned and operated by ourselves while 16 non-operated fields where we act as non-operators having JV agreements with foreign as well as local E&P companies. Due to a long track record of working in all the varied geological terrains of Pakistan, we have acquired an unmatched E&P expertise in our operations which are spread all over the Country. Progressing towards an increase in production, OGDCL during the period under review witnessed its net gas production enhanced by 3.2% whereas its crude oil production improved by 2.6% in comparison with the corresponding period of last year.

As of February 4, 2015, OGDCL has already marked 33 well locations on the ground and 12 out of these have already been spud. These spud wells include five exploratory wells and 7 development wells. Furthermore, drilling and testing of two more wells in the previous fiscal year also continued during the reporting period.

Moving on to slide number 4, you can 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 112,794 km², which is the largest exploration acreage in the Country as at December 31, 2014. The Company's concession portfolio constituted 62 owned and operated exploration licences besides holding working interest in 6 exploration blocks which are operated by other exploration and production companies. Our exploration licences portfolio is spread across all the four provinces of the Country with 9 in Khyber Pakhtunkhwa province, 15 in Punjab, 12 in Sindh and 24 in Balochistan with 2 blocks in the offshore areas of Pakistan. One more exploration licence has been awarded to OGDCL in the month of January 2015 – the Kulachi block.

To carry on with the presentation I will now ask Mr. Mushtaq Ahmad, Chief Financial Officer and other heads of departments to take you through the next few slides of the presentation.

Mr. Mushtaq Ahmad: Assalam-o-Alaikum. Ladies and gents, this is Mushtaq Ahmad, CFO OGDCL. Turning to slide 5, during the period under review OGDCL's financial results were affected mainly due to the fall in international oil prices. This is witnessed by the fact that the average realised price of crude oil for the half year declined to US $76.57 per barrel as compared with US $87.46 per barrel during the preceding period last year. A slight decline in the average realised price of gas was also recorded at Rs 276.69/Mcf compared with Rs 278.64/Mcf in the last period, however a wholesale decline in the prices was partially offset by the increase in hydrocarbon production helping the Company to register sales revenue of Rs 118.6 billion as compared to the corresponding period of Rs 126.17 billion. Apart from the drop in oil and gas prices, higher exploration and prospecting expenditure on account of increase in geophysical survey along with increased operating expenses owing to amortisation of development and production assets impacted OGDCL's profitability. Moreover, a decline in other income mainly due to a decrease in exchange rate in comparison with the corresponding period of last year aligned with the tax on prior period assessments contributed to reduced profitability – this has led the Company to register profit after tax of Rs 47.8 billion translating into earnings per share of Rs 11.12 per share. Despite decline in the profitability during the period, the Company will continue to it's intensified exploratory efforts and fast track completion of ongoing development projects to maintain and enhance the rising production while generating increased financial returns for the shareholders in the years to come. Operating profit margin and net profit margins stood at 54% and 40%, respectively. In addition, the Directors of the Company today approved a second interim cash dividend of Rs 2 per share.

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

Dr. Mohammad Saeed Khan Jadoon: Good day ladies & gents, this is Dr. Saeed Jadoon, the Executive Director of Exploration, OGDCL. During this period under review, OGDCL spud ten wells. These spud wells included four exploratory / appraisal wells and the exploratory wells are Nashpa X5, Jarwar-1, Kup-1, Zin Pab-2 and six development wells namely Kunnar-9, Pasakhi Deep-5, Dakhni Deep-5, Nashpa 6, Chak 5 Dim 3 & Pasakhi-10. Exploration and appraisal success continued during the period under review yielding three new oil and gas discoveries namely Soghri-1 and Jand-1 in the Punjab province, and Jarwar-1 in Sindh province. As at December 31, 2014, the Company had the largest exploration area in the Country covering an average of 112,794 km². This includes 62 owned & operated exploratory licences. During the period under review, the seismic crew of the Company acquired 2,354 line kilometres of 2D and 508 km² of 3D seismic data.

Now Mr. Asad Ahmad Asad will take you through the next couple of slides.

Mr. Asad Ahmad Asad: Hello everyone. I am Asad Ahmad Asad, Executive Director Production. Let's move on to slide number 7. During the period under review the net gas production was enhanced by 3.2% and crude oil production by 2.6% in comparison with the corresponding period of last year. In addition, OGDCL during the half year carried out work-over jobs at Pasakhi-7, Lashari Center, Chakh-66 North East Well-1 and Kunnar- 8; and did stimulation jobs at Nashpa-1, Qadirpur-30 and Rachna-2 & 8. Moreover, the Company with an aim to update their inventory and induce improvement in the current well flow parameters carried out a pressure survey at different wells of Bobi, Dakhni, Rajan, Sinjhoro and Nashpa oil fields. Furthermore, as part of preventative maintenance plans, the Company carried out annual turnaround of plants at the Qadirpur gas field, Uch gas field, Chanda oil field, Sinjhoro, Dakhni and Bobi oil field. The increase in gas production is primarily due to an increase in production from Uch gas field, Nashpa gas condensate field and Maru Reti fields in conjunction with the start of production from Nim Dachrapur and Gopang oil fields. On the other hand, the rise in crude production owes to increase in production from Nashpa, Rajian and Lashari fields and commencement of production from Nim and Jarwar fields accompanied by an increase in share of crude oil production from our non-operated joint venture fields. An increase in oil and gas production has been achieved inspite of production curtailment from the Mela field and high water cut at Chanda oil field, heavy flood at the Bahu field and less gas intake by UPL from Uch Gas field and natural decline in some of the mature producing fields.

OGDCL's endeavour to expedite the development work pertaining to its ongoing development projects including Kunnar Pasakhi Deep / Tando Allah Yar, Sinjhoro Phase 2, Jhal Magsi and Uch-II remained underway. Completion of these development projects are anticipated to render significant enhancements in the crude oil, gas and LPG production, thus supporting the Company's growing trend of production in the years to come. Furthermore, OGDCL started supply of gas from its Uch-II gas field to M/s Uch-II Power Limited in December 2014.

Now I ask Mr. Mushtaq Ahmad, CFO to continue with his presentation. Thank you very much.

Mr. Mushtaq Ahmad: Hello everyone once again. Looking at slide 9, this shows a graphical illustration of our financial performance. Here we see significant growth in Net Sales which I touched upon earlier on slide 5. Sales revenue decreased mainly due to a fall in international oil prices. This can be witnessed by the fact that average realised price of crude oil during the period decreased as compared to the corresponding period, however, this decline due to pricing was partially off-set by the increase in the hydrocarbon production. Operating expenses increased by 29% mainly on account of the following: an increase in amortisation, an increase in joint venture expenses, an increase in depreciation, an increase in stores and supplies consumed, increase in repair and maintenance, and increase in salaries & wages. Exploration and prospecting expenditure also increased by 30%, mainly due to increase in geophysical survey during the period. Profit after tax decreased by 29% due to a decrease in sales, other income and an increase in exploration and prospecting expenditure along with an increase in taxation due to prior period assessment.

I now hand the presentation back to Mr. Muhammad Rafi, MD and CEO OGDCL to say some concluding remarks.

Mr. Muhammad Rafi: Thank you Mr. Ahmad. During the 2nd quarter of the half year the Company witnessed decline in the oil prices and that has a major impact on our revenues, but considering that Pakistan is an energy deficient Country and there is a lot of market for Companies' finished products, mostly oil and gas; and also taking into account that the company has 63 exploration blocks in hand, the Company continued its efforts towards exploration and production.

In terms of exploration our 2D survey during the half year was 2,354 line km compared with 962 line km in the past. 3D survey was also higher at 508 km^2 compared with 433 km^2 in the last half year. The impact of this increased effort by the Company will come in the shape of new drilling points for exploration, for drilling of exploratory wells and we are very much focused on the Company drilling more wells in the next two to three years as a result of this increased exploratory effort which would lead to enhancement in Company's production. Also, we are going to drill 35 wells this year. Out of these 35 wells, to-date 33 wells have been marked on ground, while the civil works and land acquisition for most of the wells have already been completed and now we are targeting to drill the remaining development wells.

In view of fall in oil prices, we have reviewed our capital expenditure but we will not compromise on the exploratory and development drilling because that would lead to higher production in the future years, however, some other capital expenditures are being cut down in order to save cash flows. Company has been able to maintain the dividend. Company has declared almost the same amount as dividend as was declared in the second quarter of financial year 2013-2014, so the liquidity position of the Company is good and it is our endeavour to provide maximum returns to our shareholders and to increase production leading to enhancement in the revenues and profitability of the Company.

Ladies and gentlemen, I would now request to ask any questions you have.

Operator: Ladies and gentlemen, 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 keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Once again, that is *1 if you would like to ask a question. We will pause for just a moment to assemble the queue.

We now take our first question from Fatiq Khursheed of Optimus Capital Management. Please go ahead.

Fatiq Khursheed: Assalam-o-Alaikum Sir. My first question is regarding third party reserves evaluation of OGDCL’s fields. The draft report of which is uploaded on OGDCL’s website. It’s an interesting report as we can see a significant increase in reserves at Nashpa oilfield and some other oilfields at the same time we also see considerable decline in reserves at Uch and Qadirpur gas fields. My question is that, can we see a decline in production from the two fields going forward as we can already see a decline in production from Qadirpur from around 500 MMscfd to around 450 MMscfd in the past one year.

Mr. Muhammad Rafi: To conduct a reserves evaluation in an E&P company is a regular phenomena and OGDCL undertakes this exercise almost every third year in order to independently ascertain the remaining potential of the Company's reserve position. While there is some adjustment in Qadirpur and Uch field reserves, there are also some upward re-evaluations for other fields with the information of more production and well data. Qadirpur as you know, is on the depletion and the depletion rate is close to 6% or 7% per year, however, for Uch gas field, the production is being maintained and the good news is that during the quarter ended December 2014, we have started supplying additional gas from Uch II project to Uch Power Company Ltd and so far we have met the demands of the Uch Power Company and have been supplying gas as per our commitment under the GSA.

Fatiq Khursheed: Thank you sir. My last question is basically regarding the reserves reported by PPIS and OGDCL. We use PPIS reported results in our calculations, so what we can see is the two reserve numbers, like what PPIS reports and what OGDCL reports and our reports are exactly the same, but the contradiction that when we talk to PPIS they say that those reserves are 2P reserves, while OGDCL writes in its annual report that those reserves are 3P reserves. Can you please explain this discrepancy between the two?

Mr. Muhammad Rafi: We don't think that there is any discrepancy in the reserves figures quoted by OGDCL in its Annual report and the PPIS numbers. The reserves which we quote in our Annual report are on a 3P basis. And we also understand that the reserves quoted by PPIS are also on the 3P basis.

Fateh Qashid: Ok, thank you very much sir.

Operator: Thank you. We now move on to our next question from Shumaila Badar from M/s Ismail Iqbal Securities. Please go ahead.

Shumaila Badar: Thank you. My question is to Mr. Mushtaq Ahmad, I wanted to know about your sales figures this time. You've included an impact of GIDC, gas infrastructure development sales of around 1.9 billion and were you not doing this previously? Can you please shed some light on this issue?

Mr. Mushtaq Ahmad: Yes. GIDC is a new tax development by the government of Pakistan but it is now in the court of law. The Sindh High Court has also set it aside for the time being. Our Company is charging GIDC on the relevant products and it is not being paid to the Government right now. As soon as the final decision is received then the next strategy will be adopted accordingly.

Shumaila Badar: Alright, so you're saying that it was not being supported or booked previously, since you started doing this portion.

Mr. Mushtaq Ahmad: It was applied only in the finance bill for the fiscal year 2014-2015 and let me also inform you that as far as the Company is concerned, it is a pass-through item. So it is appearing in the sales only because there is a Stay in the court and as soon as the decision comes, the final disposal of this amount will be done.

Shumaila Badar: Thank you.

Operator: Thank you. We now move on to a question from Asim Wahab of Nafa Funds. Please go ahead.

Asim Wahab: Thank you for the presentation. Sir, I had a couple of questions. First you mentioned that you have adjusted your capex plans, so could you shed some light on the details of the adjustments that you have made; and secondly supposing the oil prices hover around the range of $40 per barrel for the next 4-6 months or for a prolonged period of time. Will we be witnessing any asset write-downs because OGDCL made significant investment, about Rs 70-80 billion in the past couple of years in its plant and equipment and its exploration assets. We have seen globally that there have been asset write-downs so will we be witnessing any asset write-downs in the Pakistani space? Thank you.

Mr. Muhammad Rafi: Based on the 2013-14 results, oil accounts for around 48% of the Company's total revenue while the remaining approximately half of the Company's revenues come from sale of gas. As far as the gas prices are concerned there is no significant impact on the gas price because either they are linked with the fuel oil price or these are linked with the crude oil basket where the capping is at $36 per barrel. So as of today there is no such impact on the gas prices. The impact of the decline in the crude oil price has come in and now as I mentioned in the beginning we need to enhance our oil and gas production. It is only through this approach we can compensate the shortfall in the revenues, by increasing the production and for that purpose we have to have more exploration as long as our resources support and currently there is no such problem, we also have a better liquidity position. Regarding the reduction in capital expenditure, that reduction is mainly in the plant and equipment side as some of the expenditure was already incurred especially on the Uch II project, similarly most of the expense on the Sinjhoro block has already been incurred; and some of the expenditure especially on the Nashpa project will now be shifted to the next fiscal year. So there will be savings in the capital expenditure from these accounts this year but we have no plan to cut down our exploration effort.

Asim Wahab: Alright. Sir, again coming back to my question, I wanted to know…suppose the oil prices stay around $40 per barrel for a prolonged period of time, will we be witnessing any asset impairments for OGDCL as we have seen in Pakistan Petroleum **Limited** that they have put on hold the acquisition of MND Exploration, so I just wanted to know will there be any write-downs in the local E&P space, if oil prices persist at the $40 per barrel level?

Mr. Muhammad Rafi: As you know and as I mentioned in the beginning, that composition of oil in the total revenues was less along with the fact that our net profit margin historically has been 46-48%, net profit after tax margin. There will be an impact but there will not be a marked one. In the past 3, 4 months there was an impairment loss of around Rs 400 million. As for the oil prices are concerned we have seen the forecast close to 57 barrel per barrel, so that would still be higher than our revised forecast and once our production goes up and with the margin that we have been earning in the past, there will not be a marked impact.

Mr. Mushtaq Ahmad: Concerning your question, while accounts were being reviewed for the half year ended December 31, 2014, the impairment test was carried out **on** the basis of current crude prices trend and it is very encouraging that only Rs 400 million impairment was identified, therefore in the near future we do not foresee any impairment in OGDCL assets. Thank you very much.

Asim Wahab: Thank you. That would be all from my side.

Operator: We now move on to a question from Fawad Khan **from** KASB. Please go ahead.

Fawad Khan: Hello. Just a quick question on the wells, in fact these development plans that OGDCL has initially unveiled back in the first quarter, the KPD project which was initially I believe targeted for December 2014, now in this presentation is shown as targeted in December 2015, so I just wanted to know what's the background of this delay?

Mr. Muhammad Rafi: As you know the KPD project, the Company is developing on its own and there are five small components of this project which include civil works, installation of and because of delayed delivery of certain plant parts, the date of completion of the project has slipped to December 2015 although we are already producing 110 million cubic feet of gas from the project under Phase I.

Fawad Khan: So, with this project pushed back into 2016, what kind of production growth are you looking for in 2015 and if we can provide some guideline for the production growth in 2016?

Mr. Muhammad Rafi: By the close of June 2015, we are targeting oil production to 50,000 barrels a day whereas gas production is likely to touch upon 1,250 million cubic feet of gas per day, in other words 1.25 billion cubic feet of gas. Then in 2016 Kunnar Pasakhi will come onto production and then Nashpa will come onto production. These two projects would increase the production of gas by around 140 million cubic feet and oil production will be increased by another 5,000 barrels per day. Also, we have developed the capability of immediate delivery of crude oil discoveries, however for gas discoveries it requires time. As for the recent discovery from Soghri, we have been successful at laying the gas pipeline at a very fast pace and hopefully by the end of February we would be producing gas under extended testing from Soghri through our Dakhni Processing Plant. So, we are adopting some innovative approaches with a view to enhance our production and with a view to cover the shortfall in our production due to slippage of projects like KPD.

Fawad Khan: Thank you.

Mr. Muhammad Rafi: Thank you very much ladies and gentlemen for your participation in the conference call. Please note that our Investor Relations department is available to attend any further queries that you may have. Me and my team is fully committed to meet the production and sales targets in the remaining half year of the current fiscal year and hopefully we will be looking for some enhanced targets in the next fiscal year which is 2015 / 2016 both in terms of seismic acquisition exploration as well as in drilling by introducing new technology and advanced techniques.

Thank you very much ladies and gentlemen.