

Oil and Gas Development Company Limited

Conference Call on Full Year Financial Results FY 2015 (July 2014 – June 2015)

Presenters: **Mr. Zahid Mir (Managing Director / CEO)**
 Mr. Irteza Ali Qureshi (Chief Financial Officer)
 Mr. Asad Ahmad Asad (Executive Director – Production)
 Dr. Muhammad Saeed Khan Jadoon (Executive Director – Exploration)

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Time: **5:00 PM (Pakistan Standard Time)**

Mr. Zahid Mir: Good afternoon and welcome to OGDCL's Full Year 2015 Financial Results Conference Call. My name is Zahid Mir, I am the Managing Director of OGDCL. Before I proceed with the presentation, let me first introduce my team to you. I've with me here Mr. Irteza Ali Qureshi, Chief Financial Officer, Mr. Asad Ahmad Asad, Executive Director (Production) and Dr. Muhammad Saeed Khan Jadoon, Executive Director (Exploration), so that's the OGDCL team who will be giving today's presentation.

The structure of the presentation will consist of an overview of the Company, then operational and financial highlights and then the closing few words.

May I ask you first to please read the disclaimer on page 1 of the presentation which our IR team has emailed you, I will give a pause of half a minute before I start. Gentlemen, OGDCL is the largest upstream player in Pakistan. We enjoy the largest share of exploration acreage in the country which stands at 32% of the total awarded acreage in the Country. As of December 2014, OGDCL hold 61% of the country's recoverable oil reserves and 33% of the country's recoverable gas reserves. If you look at the reserves, our remaining 2P reserves at the end of June 2015 stood at about 1,025 MMBOE. In terms of production, currently OGDCL is producing about 30% of Pakistan's gas output and 46% of its oil output. OGDCL has a portfolio of 101 Development & Production Leases (D&PLs) out of which 69 are 100% owned & operated JVs and 32 are non-

operated JVs. We also act as non-operator partner having joint venture agreements with foreign as well as local E&P companies operating in Pakistan. During the fiscal year 2014-15, OGDCL reported average daily net crude oil production of 40,818 barrels per day and 1,143 million cubic feet per day of gas. During the period under review, we spud 25 wells out of which 14 were exploratory / appraisal wells and 11 were development wells as compared to the 17 wells spud during 2013-14. During the period under review, OGDCL also made four oil and gas discoveries which are Soghri-1, Jand-1, Jarwar-1 and Palli Deep-1.

Moving on to the next slide, where you see a map of Pakistan which clearly shows OGDCL's dominant position in all the prospective areas of the Country. OGDCL's concession portfolio contains a diverse portfolio of exploratory assets with the potential to offer robust short, medium and long term growth opportunities. These exploratory assets of the Company currently constitute 63 owned & operated joint ventures alongwith holding a working interest in six (6) exploratory blocks operated by other exploration and production companies. OGDCL has 115,037 Sq. Kms of exploration acreage in Pakistan which is the largest hold exploration acreage by any one company in Pakistan.

That's a short overview of the Company. Now I'll ask Mr. Irteza Qureshi who's our CFO to take you through the next two slides of the presentation.

Mr. Irteza Ali Qureshi: Ladies and gentlemen, this is Irteza Qureshi, I am the Chief Financial Officer in OGDCL. Turning to slide number 5, during the year under review dramatic fall in international oil prices affected OGDCL's financial performance. The same is evident by the fact that average basket price of crude oil during the period July 2014-June 2015 plunged to US\$ 74.45/barrel from US\$ 106.64/barrel when compared with the corresponding period last year. Resultantly, the Company's average realized prices recorded for crude oil and gas were US\$ 63.29/barrel and 272.61/Mcf compared with US\$ 87.71/barrel and 282.95/Mcf, respectively in the last year. In addition, change in average exchange rate to Rs/US\$ 102.14 from Rs/US\$ 103.40 during the last year impacted the Company's Sales leading the business to register Sales Revenue of Rs 210.625 billion (2013-14: Rs 257.014 billion) and Profit after Tax of Rs 87.249 billion translating into Earnings per Share of Rs 20.29. Operating profit margin and net profit margin stood at 51% and 41%, respectively. In addition, the Company today approved a final payable cash dividend of Rs

1.50. This along with the earlier announced dividends of Rs 6.25 during the year takes the full year total cash dividend to Rs 7.75 for the year.

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. Muhammad Saeed Khan Jadoon: This is Dr. Saeed Jadoon and I will be taking you through slide 6. OGDCL during the period under review spud 25 wells, including 14 exploratory and appraisal wells and 11 development wells. Exploratory / appraisal wells included Nashpa-X5, Jarwar-1, Kup-1, Loti Deep-1, Sur Qamar-1, Sinjhor West-1, Sheikhanwala-1, Ismail-1, Shawa-1, Tando Allah Yar East-1, Thal East-1, Zin Pab-2, Soghri-2 & Suleiman-2 and development wells included Pasakhi Deep-5, Chak 5 Dim-3, Dakhni Deep-5, Kunnar-9, Kunnar Deep-10, Pasakhi-10, Reti-2, Nashpa-6 & 7 and Loti-19 & 20. Furthermore, drilling and testing of eleven (11) wells spud in the previous fiscal year got completed during the reporting period. Exploratory efforts for finding new reserves continued during the period under review and yielded four new oil and gas discoveries, namely Soghri-1 & Jand-1 both in the district Attock, Punjab province; and Jarwar-1 & Palli Deep-1 both in Tando Allah Yar district, Sindh province. OGDCL has the largest exploratory acreage in the country covering an area of 115,037 Sq. kms. This includes 63 owned and operated joint venture, exploration licences. Additionally, OGDCL is also working as non-operator in six blocks which are being operated by foreign as well as local companies in Pakistan. During the period under review, we carried out intensified exploratory efforts for seismic data acquisition and managed to acquire 5,430 line kms of 2D and 1,918 Sq. Kms of 3D seismic data.

Now I will hand over the presentations to Mr. Asad Ahmad Asad who is Executive Director, Production who will take you through the next couple of slides.

Mr. Asad Ahmad Asad: Hello everyone, this is Asad Ahmad Asad, Executive Director of Production, Let's move to slide 7. OGDCL being the national flagship of the Country's E&P sector is making all out efforts to play a pivotal role in enhancing the energy security of Pakistan. In this context, the Company during the period July 2014 – June 2015 contributed around 44% and 29% of the

Country's total oil and natural gas oil production, respectively. The Company during the year added 4,300 barrels per day of oil and 60 MMcf per day of gas through addition of new wells; namely Nim-1, Chak 66 NE-1, Maru East-1, Chak Naurang South-1, Palli Deep-1, Jarwar-1, Soghri-1, Chak 63-4, Reti-2, Kunnar-9, Pasahki-10, Qadirpur-53 and Hakeem Daho-1 & 2.

OGDCL, during the year under review completed interim arrangement of early production facilities at Palli Deep-1 on fast track basis which is currently producing. Likewise, Soghri-1 has also been taken into national grid through Company's nearest gas processing plant located at Dakhni field by utilizing in-house expertise and resources for designing of well head facilities and laying of 22 km long pipeline in the shortest time period of 90 days despite difficult terrain. In addition, the Company through jet pump also put Jarwar-1 on production while installation of processing facilities to utilize gas from Jand-1 is in progress.

Moving over to slide number 8, which provides latest status on our various development projects. OGDCL, during the year under review, continued to make efforts for completion of ongoing development projects which are at various stages of completion. These development projects include Kunnar Pasahki Deep-Tando Allah Yar (KPD-TAY), Sinjhoru, Uch-II, Jhal Magsi and Nashpa-Mela which upon completion are expected to render significant enhancement in the Company's crude oil, gas and LPG production in the near future.

Now, I will ask Mr. Irteza Ali Qureshi, CFO, to continue with the presentation.

Mr. Irteza Ali Qureshi: Looking at slide number 9, which gives a financial snapshot as a graphical illustration of our financial performance. Dramatic fall in the international oil prices which plummeted to \$74 during the year from \$106 in the corresponding period last year and a decline in average exchange rate to Rs 102.14 from Rs 103.40 in the previous year affected one revenues. Higher operating expenses of 8% were mainly on account of increase in salaries and wages, impairment of development and production assets; and increase in the joint venture expenses. The increase in exploration and prospecting expenditure was mostly due to enhanced geophysical survey.

Moving on to slide number 10, which tabulates the financial highlights. The net profit margin was 41% this year compared with 48% last year, earnings per share stood at Rs 20.29 versus Rs 28.81 versus last year and cumulative dividend of Rs 7.75 this year versus Rs 9.25 last year.

To take the presentation to conclusion, I now hand over the presentation back to our MD /CEO, Mr. Zahid Mir.

Mr. Zahid Mir: Well, we are pretty much at the end of the presentation but I would like to emphasize that we are fully focused on increasing the production and we do it by developing the existing assets, drilling more development wells, arresting the decline in our existing fields and then trying to bring the projects online as soon as possible. And we have planned to achieve all this growth by implementing international best practices across all our operations.

Ladies and gentlemen, thank you very much. This concludes our presentation for today and I thank you all for joining us in the conference call. We would now like to ask the operator to conduct a Q&A session which we expect to be not more than 15 minutes in duration.

Operator: Thank you gentlemen. If the participants would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. We will take the first question from Fadiq Khursheed from Optimus Capital. Please go ahead.

Fadiq Khursheed: Hello. First off, I would like to congratulate OGDCL management for achieving such good results in such hard times of unfavourable exchange rate and weak oil prices, salute. I have a few questions, I was going through the financials you emailed to us and would like to ask you about the impairment charges that OGDCL has recognised in this latest fourth quarter which amount to Rs 2.2 billion. Can you please explain what this pertains to?

Mr. Irteza Ali Qureshi: The impairment charges pertain mostly to our two non-operated blocks namely Pindori and Bhangali. The total amount of impairment is approximately Rs 2.4 billion.

Fadiq Khursheed: Similarly, if you look at the previous quarter, like the third quarter number for amortisation or development production assets, the amortisation for that quarter amounted to

about Rs 2.86 billion but during this quarter the number has jumped to Rs 4.5 billion. Can you please explain the sudden jump in the amortisation number quarter on quarter?

Mr. Irteza Ali Qureshi: On a full year basis, it is below last years number.

Fadiq Khursheed: Ok, nothing material. My last question is regarding the capital expenditure guidance, now that the oil prices have halved but OGDCL seems to be committed to increasing its production to increase exploration and capital expenditure efforts, so can you please guide us what is OGDCL planning on the capital expenditure front for the next year 2016?

Mr. Zahid Mir: We are focusing on two things: first is our focus on exploration and we are fully committed as far as expenses are concerned wrt exploration activities in the 29 new blocks that the Company was able to win. We have got three years to complete a certain work programme, so there is a commitment to complete that exploration work in the blocks which include drilling of wells as well. We will run the feasibility and the economics to see whether the structure that we are drilling will make economic sense to drill. So it will be a commercial decision based on the new oil price regime. The next bit is our focus on development projects. With regards to our projects, the Company is trying to renegotiate with the contractors to bring down the costs as much as we can. The opportunity is that the cost of the development has gone down in the new oil price scenario and we are doing our best to take advantage of low cost environment. In fact, we have managed to substantially reduce costs of Nashpa Project by planning to utilize the existing infrastructure thereby reducing the scope of the project. Apart from capex, certain initiatives are being taken to reduce the operating expenditures also, as we very well realise that the scenario has changed and according we are fully geared to reduce our capex and opex both.

Fadiq Khursheed: Ok. Thank you very much, that's all from my side, thank you.

Operator: We will take the next question from Asad Siddiqui from AKD Securities. Please go ahead.

Asad Siddiqui: Good evening gentlemen, commiserations on the results. Just taking a cue from the question which was previously asked, could you please tell us the drilling targets the company has for the next year?

Mr. Zahid Mir: OGDCL spud 25 wells last year and the current year plan is to open 31 wells . Out of these 31 wells, 18 wells will be exploratory/appraisal wells and 13 wells will be development wells. And most of these exploratory wells will be part of our exploratory commitment; while the development wells are effectively drilled to optimize our field production levels.

Asad Siddiqui: Ok. Could you please specify in which area as far as the provinces are concerned you would be more concentrating your exploration activities?

Dr. Muhammad Saeed Khan Jadoon: We are drilling exploratory/development wells in all the four provinces of the Country.

Mr. Zahid Mir: Just to add to Mr. Saeed's answer, we are currently drilling four wells in KPK, four wells in Sindh, three wells in Balochistan and one well in Punjab. So, you can see we are currently drilling in all the four provinces.

Asad Siddiqui: You said you were currently drilling three wells in Balochistan. Could you please shed some light on the security situation? Has the security situation taken a turn for the best in Balochistan or has it still remained a problem for the Company?

Mr. Zahid Mir: The security situation in Balochistan has definitely improved. You can see we are drilling a well Kup-1 and we are drilling in an area which was earlier under force majeure for many, many years, so you can see there is a clear shift as far as security conditions are concerned. Similarly, we are preparing to drill in the Saruna area which was in force majeure for the last many, many years. We are also working in the other areas of Balochistan in Kohlu & Block 28. At this time OGDCL is closely liaising with the Government of Balochistan and we expect further improvement.

Asad Siddiqui: Ok. Coming back to the international oil price, could you please give us an idea by what percentage that slide has shaved off the exploration costs? If you could give me a figure of let's say the rig's costs have gone down by x percent due to the slide in the oil prices?

Mr. Zahid Mir: Well, we have got ten rigs which we own and we are also working with the rig contractors. One of the major effects in reduction of contractual rigs costs could be gauged when recently we managed to pen down four drilling rigs contracts with absolutely zero standby charges. Effectively, this is the first time that has happened in a long time and normally the standby charges are around 80% of the drilling charges, which hovers from \$20,000 to \$22,000 a day. So this is major reduction in rig costs as far as drilling rigs are concerned.

Asad Siddiqui: Ok. Thank you gentlemen that would be all.

Operator: We will take the next question from Wasim Raja with Ismail Securities. Please go ahead.

Wasim Raja: As-salamu alaykum. My question is that the government has imposed 3% supertax for the fiscal year '15, so have you incorporated the supertax in your tax amount this year?

Mr. Irteza Ali Qureshi: Under the schedule we've only taken the impact of supertax on our other income. We understand it does not apply to our main revenues.

Wasim Raja: Ok, thank you.

Mr. Irteza Ali Qureshi: Pleasure.

Operator: We will move to Usman Riaz with Daurus Securities Limited. Please go ahead.

Usman Riaz: Good evening gentlemen this is Usman Riaz. Just a quick question on a KPD project. Since it had seen a considerable delay, do you think the December '15 timeline is firm, or should we expect to see more delays?

Mr. Zahid Mir: We are working very hard to achieve a completion target of December end for the KPD project. Let me inform you that the procurement is about 99% complete. The EPC work is about 94% complete. There are a couple of things which have restricted process but we are really confident that we'll achieve the completion deadline of December 2015.

Usman Riaz: And what if there is a delay? Do you think it would be a couple of months or again six months or a year?

Mr. Zahid Mir: Absolutely no chance of delays for a year. There is a possibility of delay which may run into a month, a month but not more than that.

Usman Riaz: Ok, thank you very much.

Operator: There are no further questions in the queue at this time so I'd like to hand it back to the speakers for any additional or concluding remarks.

Mr. Zahid Mir: Thank you very much everybody for attending this call and thank you very much for your continued support. We are always available for any clarification. You are encouraged to contact our Investor Relations Officer in case you have any queries. I'm sure you will have his email address, so just drop in a line and we will get back to you. Once again thank you very much and goodbye.

Operator: Ladies and gentlemen that will conclude today's conference call. Thank you for your participation and you may now disconnect.