Oil and Gas Development Company Limited

Conference Call on Half Year Financial Results FY 2016 (July 2015 – December 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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Mr. Zahid Mir: Good afternoon and welcome to OGDCL's Half Year 2016 Financial Results Conference Call. My name is Zahid Mir, I am MD/CEO 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.

Mr. Zahid Mir: Good afternoon, ladies and gentlemen. Welcome to the OGDCL's Conference call. This is being held to announce OGDCL's Half Year Financial Results (FY 2016). The structure of the presentation will consist of an overview of the Company, operational and financial highlights and then the closing remarks. I understand that our Investor Relations team has already sent you the presentation so I'll start from page # 2 of the same, I will take a short pause and ask you to go through our legal disclaimer first before I go ahead to the next slide.

Gentlemen. OGDCL is the largest upstream player in Pakistan. We enjoy the largest share of exploration acreage in the country which stands at 31% of the total awarded acreage in the Country. As of June 30, 2015, OGDCL held 59% of the country's recoverable oil reserves and 36% of the country's recoverable gas reserves. If you look at the reserves, our remaining 2P reserves at the end of December 2015 stood at 985 MMBOE on 2P basis. In terms of production, currently OGDCL is producing about 28% of Pakistan's gas output and 48% 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. OGDCL is operating in all the four Provinces of Pakistan.

During the fiscal year from July 2015 to December 2015, OGDCL reported average daily net crude oil production of 40,028 barrels per day and 1,116 million cubic feet per day of gas. During the period under review, we have spud 8 wells so far, which includes 2 exploratory / appraisal wells and 6 development wells. During the period under review OGDCL also made two oil & gas discoveries.

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 61 owned & operated exploration licences alongwith holding a working interest in 6 exploratory blocks operated by other exploration and production companies. OGDCL has 112,000 sq. kms of exploration acreage in Pakistan which is the largest held exploration acreage by any E&P company in Pakistan.

Now moving forward, I'll hand over the call to Mr. Irteza Qureshi, our CFO, to give you a briefing on the financial performance of the Company.

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, persistent slump in international crude oil prices continued to impact OGDCL's financial performance, a trend witnessed across the entire E&P industry. This position is reflected in average basket price of crude oil during the period from July 2015 to December 2015, which plummeted to US $47.73 barrel from US $91.86 / barrel when compared with the corresponding period last year. Resultantly, the Company's average realised prices recorded for crude oil and gas were US

$43.09 / barrel and Rs 255.47/Mcf compared with US $76.57 / barrel and Rs 276.69/Mcf, respectively in the same period last year. Company's sales, affected by decrease in oil and gas production were partially offset by increase in average exchange rate to Rs/US dollar 104.19 from Rs/US dollar Rs 101.94 during the comparative period, leading the business to register Sales Revenue of Rs 86.186 billion and EPS of Rs 7.95. Operating profit margin and net profit margin stood at 45% and 40%, respectively. In addition, the Company today approved a second interim payable cash dividend of Rs 1.20 / 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: This is Dr. Saeed Jadoon and I will be taking you through slide # 6. As of 30 June 2015, the Company held the largest exploration acreage in the Country covering an area of 112,601 Sq.kms. This includes sixty one (61) owned and operated joint venture (JV) exploration licenses. Additionally, OGDCL also have working interest ownership in six blocks operated by other E&P companies. As of 30 June 2015, OGDCL during the period under review spud 8 wells, including two 2 exploratory and appraisal wells, namely Bachani well-1 and Bitrism West-1, and six development wells, namely; Qadirpur-55, Qadirpur HRL-9, and Buzdar North-2, Pirkoh-54, Kunnar-10 & 11. Furthermore, drilling and testing of four (4) wells spud in the previous fiscal year have been completed during the reporting period.

OGDCL's exploratory endeavors to locate new hydrocarbon reserves during the period under review led to oil and gas discoveries at Chak Naurang South-1 in district Chakwal, Punjab province and Aradin-1 in district Khairpur, Sindh province. Subsequently, during the month of January and February 2016, the Company made two more discoveries at Thal East-1 in district Sukkur, Sindh province and Nashpa X-5 in district Karak, Khyber Pakhtunkhwa province. OGDCL's intensified exploratory efforts continued during the reporting period. The Company during July – December 2015 acquired 2,816 Line kms of 2D and 1,545 Sq. kms of 3D seismic data in various exploratory blocks. Moreover, 4,892 Line km of 2D seismic data of various blocks were processed using in-house resources.

Now I will hand over the presentations to Mr. Asad Ahmad Asad, Executive Director of 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 2015 – December 2015 contributed around 48% and 28% of the Country's total oil and natural gas oil production, respectively. During the period under review, the Company produced average net crude oil production of 40,028 bpd, average net gas production of 1,116 MMcfd, average net LPG production of 312 Mtpd & average net Sulphur production of 28 Mtpd.

OGDCL as part of preventive maintenance plan, carried out Annual Turn Around of plants at Bobi, Qadirpur, Kunnar, Kunnar Pasahki Deep, Dakhni, Chanda, Uch and Sinjhoro fields. Moreover, production testing has been completed at wells; Suleman-2, Chak 2-2, Qadirpur HRL-9, and Thal East-1. The commissioning of cathodic protection system at 24 wells of Kunnar Pasahki Deep and 15 wells of Uch-II project has also been completed. Regarding LPG production, the Company witnessed increase owing to start-up of production from Sinjhoro and Jakhro fields.

Moving over to slide number 8, this 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), Sinjhoro, 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 ask Mr. Irteza Ali Qureshi, CFO, to continue with this presentation. Thank you.

Mr. Irteza Ali Qureshi: Thank you. Looking at slide number 9, which gives a graphical illustration of our financial performance. Net sales were down 27% owing largely to the dramatic fall in the international crude oil prices, whereas Operating expenses increased by 2% due to increase in workover wells and joint venture expenses. Exploration and prospecting expenses are down to

25%, largely owing to costs of dry and abandoned wells which were lesser this year as compared to corresponding period last year. Net profit after tax resultantly has gone down by 28% due to decrease in prices of crude oil in the current period.

Turning to slide 10, it shows the key performance indicators of the Company. Basically, profit after tax is 34.2 billion as against 47.8 billion in the corresponding period last year and earnings per share, were recorded at Rs 7.95 in the current period versus Rs 11.12 in the corresponding period last year. The cumulative dividends per share this fiscal year totals Rs 2.70 per share.

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

Hi, ladies and gentlemen. I would like to emphasize that we are fully focused on increasing the production volume and we plan to do it by developing the existing assets, drilling more development wells, arresting the decline in our existing fields and then trying to bring the new development projects online as soon as possible. We are fully committed to ensure the speedy development of our projects in the pipeline, mainly there are two projects in the pipeline; one is Kunnar-Pasakhi Deep, which is expected to come online by the end of April 2016. It will add about 4,000 barrels / day of oil, 125 MMscf / day of gas and close to 400 metric tons / day of LPG, respectively. So with this additional volume coming in, we will be witnessing better performance in the 2nd half of current fiscal year 2015-16. Similarly, the next project that we have awarded in this half is the Nashpa Development Project where the contractor has been mobilised and project activities are underway. This is a 17 months project and it will add 1,000 barrels / day of oil, 10-20 MMscf / day of gas but the major increase will come in the form of LPG which will be about 350 metric tons / day.

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. You are welcome to ask any questions.

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 Mr. Tunde Ojo from Harding. Please go ahead.

Tunde Ojo: Good afternoon and thanks for the presentation. I just want to know if you can provide a little more colour on why production volumes were down year-to-year on gas and crude oil please?

Mr. Zahid Mir: Well, the production volume has actually increased from last year, however, due to natural depletion in some of our brown fields, the overall effect has been a slight drop in net production in the first half of current fiscal year as compared to the corresponding period last year. We have actually been able to add around 4,700 bpd. The Company managed to bring online 2,700 bpd of oil from Sinjhoro field, 1,000 bpd from Kunnar field and another 1,500 bpd from Mela field. Roughly speaking, the Company averaged crude oil production of around 43,000 barrels per day, in the month of January 2016. The slight drop in our crude oil production was due to unforeseen interruptions at Nashpa and Makori processing plants (one of our non-operated fields), which were later rectified and both these plants are back in operation. So the production was slightly below the expected mark due to natural decline of our mature fields and the two plant interruptions.

As far as gas is concerned, there was no deliverability concerns of gas by OGDCL, however due to constrained demand from our biggest power producer i.e., Uch Power, the gas sales to Uch remained less during the first half ofyear when compared to the corresponding year last year. We expect to see the demand improving in the second half of our current fiscal year.

Tunde Ojo: OK. Thank you very much. So if I take your hint from what you said earlier, it seems like on the oil side from January to February already averaging around 43,000 barrels per day and on the gas side, can you give a sense of how much incremental production you expect in the second half please?

Mr. Zahid Mir: Yes, thas right for the expected oil production during the remaining part of our current fiscal year. The incremental production of gas that we're expecting in the second half is 125 MMscfd, which is expected to be injected into the system by end of April 2016. So effectively, the second half would see an increase of about 60 MMscfd for as an average increase for the full year. Apart from this, the Company will be bringing in an incremental production of about 15-20

MMscfd of gas through workover jobs.. So all in all, we are talking about a net increase of 60-70 MMscfd in the second half.

Tunde Ojo: Thanks, and just a last question from me regarding gas pricing. I noticed your net realisation for gas was down year by year. Is that because some of your gas prices are linked to oil price with a threshold at $36 in the petroleum policy? Or, is it because of exchange rate? Just wanted to get a sense for why it was down year-on-year, for gas prices.

Mr. Irteza Ali Qureshi: Partially true. OGDCL gas prices are governed under different Pricing Policy regimes, one of which is the ceiling of $36 crude oil price mechanism. Whereas some of our gas prices are limked with HSFO prices, while some other are linked with crude oil prices without a ceiling, i.e., the ones under 2001 to 2012 Policy prices.

Tunde Ojo: Thank you very much.

Operator: We will now take our next question from Fawad Khan from KASB Securities. Please go ahead.

Fawad Khan: Good evening, Sir. I have a quick question on the conversion policy to be applied on the supplemental agreement. Just wanted to have clarity whether the conversion terms or the higher gas price would be applicable retrospectively and how soon the government would start giving the Company higher gas prices for the future production.

Mr. Zahid Mir: We have signed supplemental agreements for our existing exploration licences and leases. But remember, although we have converted to the 2012 prices, it does not mean that the existing production will get the new price. The conversion is mainly for the new exploration efforts in the existing assets. So, for example in TAL or in Suleiman, which were given to us a long time ago, we have converted these to 2012 and 2007, the discoveries here in TAL and Sulaiman will fetch a higher price whenever we are able to produce it. Similarly, if we are able to find more gas in the existing assets through exploration efforts, only then we'll get a higher price. For example, in Nashpa we have discovered a new structure and if we produce gas from that, it will have a better price.

Fawad Khan: But I would like to draw your attention to the Pakistan Oil Fields First Half Report where apparently they have raised demand of $34 million from the Government for apparent retrospective impact of the higher gas prices from the production in TAL block from three of four fields.

Mr. Zahid Mir: That is also correct and ties in with what I just mentioned above. The actual amount will depend on the cut-off date allowed by the Government.

Fawad Khan: Let's say if you take an example of the discovery in Maramzai which probably started producing some time in 2010 or 2012, so my understanding is while the higher gas price would be applicable under the 2009 policy on this particular discovery, Maramzai which started production in 2010. So is this understanding correct or are there other interpretations of this?

Mr. Zahid Mir: Yes, your understanding is correct but I don't have the exact dates with me for all the Supplemental Agreements that we have signed. There is an exact date for every asset.

Fawad Khan: All right, Just a quick, question on another issue i.e., capex target for this year, apparently OGDCL has spent Rs 17 billion in capex so far, so what's the target for the overall year, especially in the context of the declining oil price. Is the company phasing out or pushing back some of the capex targeted or budgeted at least out of this year to next few years or is there any change in the capex guideline mainly due to the oil price decline?

Mr. Zahid Mir: Well, you know, OGDCL is taking the low oil price environment as an opportunity to explore more. We hold huge exploration acreage and we have got commitment on these, and remember the average gas price for us is pretty low. For every new gas that we'll be able to find will fetch a higher gas price. So at $50 for example, our average gas price is somewhere around $2.75 per MMBtu. Now if we are able to produce for example gas from Sulaiman block, and if we are able to put that gas into the system, we will get a much higher price. So what I am saying is that we are taking this low oil price scenario as an opportunity to explore more. The number of wells that we intend to drill this year is higher than last year. We are trying to get the benefit of the lower rig rates and the benefit of the lower seismic crew rate from our contractors. So there is no cutting back of expenses as far as exploration is concerned and we are are moving full steam ahead.

Fawad Khan: Thank you for your answers.

Operator: We will now take our next question from Ali Husain from Due. Please go ahead, your line is open.

Ali Husain: Thank you very much. I'm just following up on what Fawad said earlier. If we were to look at it from the context of your results right now, your existing 2P reserves. So anything that will be converted to 2012 is not part of your existing reserves as we stand today. Is that correct?

Mr. Zahid Mir: Yes, this is correct.

Ali Hussain: Thank you.

Operator: There are no further questions in the queue at this time. I would like to hand the call back to our hosts for any additional or closing 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 department in case you have any further queries, so just drop us 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.