# Oil & Gas Development Company Limited

## Presentation on Full Year Results (July 2009 - June 2010)

**Presenters:** **Asif S. Sindhu (CFO),**
**Muhammad Riaz Khan (GM I/c Prod), and**
**Tariq M. Jaswal (GM I/c Exploration)**

**Date:** **Thursday, 12th August 2010**

**Time:** **8:00 pm (PST)**

Operator: Good day and welcome to the Full Year Results Fiscal Year 2010 (July 2009-June 2010) Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Asif S. Sindhu. Please go ahead.

Asif S. Sindhu: Good evening ladies and gentlemen, my name is Asif Sindhu, I am the Chief Financial Officer of the Oil & Gas Development Company. I welcome you all to our Full Year 2009-10 Results Announcement Conference Call. I would ask you all to please read the legal disclaimer on slide 2 of the presentation before I proceed with the presentation.

**Moving on to slide 3**. For those of you who have joined us here for the first time OGDCL is the largest upstream player in Pakistan. It enjoys the largest share of exploration acreage in the country which stands at 23% of the total awarded acreage. It now holds 46% of the country's recoverable oil reserves and 35% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 21% of the country's gas output. The Remaining Recoverable Reserves estimate as at June 2010 stood at an impressive 1 billion barrels of oil equivalent on a 2P basis. The reserve data is based on the latest available third party D&M certified reserves as of December 31 2006 minus the actual net production from January 2007 to June 2010. The additional reserve estimates of new discoveries during January '07 to August 2010 are not included as they have yet to be certified by the third party reserve evaluation consultant.

We have a portfolio of 75 fields out of which 45 fields are 100% owned and operated and the remaining 30 non-operated fields. Our partners include foreign as well as local E&P

companies. We have extensive experience and expertise working in all four provinces of the country and continue to believe that Balochistan and Offshore presents a great opportunity to increase our reserve base.

**Moving on to slide number 4** where you see a map of Pakistan which highlights the various exploration licenses and mining leases that OGDCL currently have. Looking at it, you will appreciate that our operations are spread all over the country and in all the four provinces of Pakistan.

**Looking now at slide number 5**, which gives a snapshot of our latest operational and financial performance. I'm pleased to inform you that net sales rose by 9% to Rs 142.5 billion from Rs 130.8 billion during the same period last year. This increase in sales revenue is due to both higher realized prices of oil and gas and the effects of exchange rate. Operating profit margin and net profit margins also show an increasing trend of 60% and 42% as compared to the same period last year. The earnings per share of the company also registered a gain of Rs. 0.85 per share when compared to the same period last year. On production volumes for both oil and gas, we saw a slight decline when compared to last year. Average net realized price for the natural gas was Rs. 186.4 per Mcf compared to Rs 174.7 per Mcf during the last year. Average net realized price of crude oil sold was US$ 61.3 per barrel compared to US$ 55.50 per barrel during the last year. OGDCL was able to spud 26 wells during 2009-10 with a break-up of 15 exploratory /appraisal wells and 11 development wells.

I will now request Mr. Muhammad Riaz Khan, our General Manager in charge of production, to continue this presentation and take you through the next few slides.

M. Riaz Khan: Good evening ladies and gentlemen. **On slide 6**, you will see a bit more detail on our production operations. Compared with the preceding year, crude oil production from the Company's 100% owned fields and share in operated JV fields decreased by 11.3% mainly due to natural decline in southern region fields like Kunnar, Pasahki, Bobi, Lashari, Moolan North and Sono, partially offset by increase in production from Thora, Dakhni and start of production from Nashpa and Baloch fields. Share of crude oil production from non-operated JV fields (Badin-II, Adhi, Pindori & Manzalai fields) increased by 23.3% which resulted in net decrease of crude oil production by 7.2%.

Company's gas production from 100% owned fields and share in operated JV fields decreased by 7.6% mainly due to decrease in production from Uch, Pirkoh, Dhodak, Nandpur and Qadirpur fields. This decrease in production was partially offset by increase in share of gas production from non-operated JV fields resulting in net decrease of gas production by 2.6%.

LPG production during the year decreased by 7.4% mainly due to water break-through at Dhodak field and operational problems at Bobi Plant.

**Now moving on to the next slide**. Sinjhoro Development Project: OGDCL has decided to develop the field on its own by relocating one of its plants. The project is expected to be completed by June 2011 adding 3,000-3,500 barrels of oil whereas the gas production would be around 25-30 MMscfd along with LPG production of 120-140 M.Tons/day.

KPD-TAY joint development project, the fields are located about 25km from Hyderabad city. KPD-TAY integrated development project will be developed by OGDC. The tender has been already floated for hiring the EPCC contractor for development of this project. The opening date of the tender is 30th August 2010. The project is expected to be completed by May 2012 and expected gas production will be 284 MMcfd whereas oil production will be around 4,400 barrels per day and LPG will be around 387 metric tons per day.

The Qadirpur Compression Project. OGDCL is the operator of Qadirpur field which is the third largest gas field in Pakistan, with 75% working interest. Production rate for the field has been on the decline due to the decrease in reservoir pressure. To arrest the natural decline in the field, OGDCL has undertaken to install 14 compressors and later the relocation of three more compressors from Pirkoh gas field. It is now anticipated that after commissioning of the compression systems in September 2010 the field deliverability will be 650 MMscfd of raw gas.

Dakhni Development Project: Dakhni Processing Plant started commercial production in early 1990s with a design capacity of 30 MMscfd of gas. Over the years, the composition of $H_2S$ gas has increased resulting in processing limitation on the existing plant. The tender documents for the refrigeration package and hiring of services like procurement, construction and commissioning (PCC) contractor for the project have been finalized. The project is expected to be completed by October 2011.

**Turning now to the next slide**, Uch II Development Project. Uch gas field is located about 67 km South East of Dera Bugti. After carrying out a detailed study of the Uch gas field it is envisaged that UGDCL is in a position to submit an additional 160 MMscfd of gas for a period of 25 years to a power producer, hence the Uch II development project was undertaken by the company. Five development wells have already been drilled out of a total of 15 wells needed for this project. Basic engineering and tender documents to engage engineering, procurement, construction and commissioning contractor has been completed and the Gas Sales Agreement is being finalized between OGDCL and Uch Power Limited. The completion period of the project is 18 months after award of the contract.

Jhal Magsi Project. The Jhal Magsi Project is located in Distt. Jhal Magsi and gas was discovered in 2003. It is a Joint Venture (JV) between OGDCL, GHPL and POL. Three wells have been drilled out of which two are producers. DGPC has approved the development plan on 25th July 2009. OGDCL and JV partners have approved the engagement of engineering consultant for preparation of Basic Engineering Design Package and Instructions To Bidders document. The tender notice was issued in the press in the month of July. The pre-bid meeting is scheduled on September 6th 2010 and bid submission date is set as 15th September 2010. The project is expected to be completed by March 2012 and will produce about 15 MMcfd of gas.

Now I will like to introduce Mr. Tariq M. Jaswal, who is our General Manager in charge of Exploration activities to take you through the next slide.

Tariq M. Jaswal: Hello, I welcome you all and **moving to Slide number 9**, which provides a glimpse of OGDCL's activities related to Exploration efforts undertaken by the Company. During fiscal year 2009-10, OGDCL carried out drilling operations on a number of exploratory, appraisal and development wells. During the year, Company spudded 26 new wells including 15 exploratory / appraisal and 11 development wells. The company managed to drill more than one third of the total wells drilled in the country. As a leading E&P company, OGDCL is endeavoring to keep a healthy portfolio of licenses. Four of the OGDCL operated Exploration Licences were relinquished due to non-availability of viable prospects although extensive seismic data was acquired, processed and interpreted.

As of June 30 2010, OGDCL was operating in 35 exploration blocks out of which 22 blocks with 100% share and 13 blocks as operated JVs including three Offshore blocks covering a total area of 63,581 square kilometers. During the year under review, OGDCL made six discoveries. In the last bidding round which was advertised by the DGPC, OGDCL won four blocks namely Lakhi Rud, Jandran West, Mari East and Channi Pull. OGDCL achieved 2,493 line kilometers of 2D and 290 square kilometers of 3D seismic survey during the period under review. The Company is actively involved in exploring possible overseas joint ventures. Our targeted areas of interest are in the North and West Africa and CIS countries.

I will now hand the rest of the presentation back to Asif Sindhu to take the presentation forward.

Asif S. Sindhu: **Moving now to slide 10** which gives a graphic representation of our financial performance. Our net sales have improved reasonably when compared with last year. The company witnessed 9% growth in net sales revenue over last year mainly due to higher realized prices of crude oil, gas and LPG. However, financial performance was negatively impacted by declining production of crude oil, gas and LPG and price adjustment of crude oil and gas from the Bobi field. Product sales revenue during the period under review of Rs. 142 billion as against Rs. 130 billion last year is inclusive of the favorable financial impact of Rs. 5.4 billion pertaining to prior periods on account of price revision for Qadirpur field sales gas with effect from 1$^{st}$ January 2008 and unfavorable financial impact of Rs. 1.6 billion due to price adjustment of crude oil and gas from Bobi fields.

We experienced an increasing trend with regard to operating expenses as compared to the corresponding period last year. This is an industry wide phenomenon. More importantly, we have managed to grow without hurting our profitability. Profit before taxation for the period was Rs. 88.5 billion compared to Rs. 80.9 billion during the previous year reflecting a 9.4% increase in the company's earnings performance. OGDCL also recorded profit after tax of Rs. 59.1 billion compared to Rs. 55.5 billion in the last year resulting in an increase in earnings per share by 6.5% to Rs. 13.76 per share as against Rs. 12.91 last year.

**Looking at slide 11**, we see a healthy financial snapshot for our company. As you would see we have been able to improve on all our key performance indicators when compared to the corresponding period last year.

**Now moving to slide 12** which is the last slide of this presentation, the main focus of management's attention is the consistent growth in production volumes of the Company which in turn will help us maintain a healthy balance sheet. OGDCL is committed to ensure the speedy development of our projects that are in the pipeline. We are working on a few potential international opportunities and we intend to continue our quest to grow internationally provided it is achieved by a prudent strategy based on economic fundamentals. Finally, we are committed to the implementation of international best practices across all of our operations. We are targeting ourselves to becoming the best corporate citizen not only in Pakistan but also in the region.

That basically concludes our presentation for today and I thank you all for joining in the conference call. We are ready to take any questions that you may have.

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 that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions.

We are now taking our first question from Farooq Najam from Invisor Securities. Please go ahead.

Farooq Najam: Good evening. I want to start off by asking what's on everybody's mind regarding the recent floods and if any of your production fields have been affected.

There were certain reports of Qadirpur being inundated and that was refuted by your Company that the problem apparently lies on SNGPL's end. Can you share with us what SNGPL has told you regarding the start-up of this facility?

MRK: Yes, the SNGPL's compressor was flooded but from yesterday they have restarted their compressors and now the Qadirpur field is on full strength.

Farooq Najam: Right. What about your other fields in the Northern areas, there were some issues with logistics, getting crude oil across to refineries? How are the roads over there? Have you been able to restart production in these fields?

MRK: Yes, we encountered some stoppage of production from Mela, Chanda and Nashpa fields due to the condition of the road and the bridge which was closed for heavy traffic. However, we used another longer route as alternate option. Currently, the crude that is being produced from these three fields has been started on a regular basis.

Farooq Najam: So we're back on normal production levels, right?

MRK: Yes.

Farooq Najam: You mentioned in your highlights that about 80 MMcfd of dormant gas is going to be added soon. Can you give us guidance on when it will come online?

MRK: We are ready to supply on a stipulated timeline.

Farooq Najam: Can you give guidance on the stipulated timeline please?

MRK: Our estimates are within six months. As soon as a buyer is ready to take the gas, we will be ready to deliver.

Farooq Najam: You have mentioned that on the six discoveries about 87 billion cubic feet and 11.9 million barrels of reserve additions is expected. Can you give us the reserve estimates for Dakhni and Shah?

Mansoor Humayon (AGM Reservoir Management): I will respond to this question. On the Shah discovery, we have recoverable reserves of 32 bscf of gas, for Maru it's 36 bscf, for Reti

1A it's 13.7 bscf, for Dakhni 11 (new zone), 36 bscf of gas, for Baloch its 15.65 bscf and for Nashpa we have 10 million stock tank barrels of oil and 30 bscf of gas. These are details based on our internal preliminary reserves evaluation for all six discoveries.

Farooq Najam: Moving on to Khawaja 1 well, can you tell us the cause of the suspension of this well and how long are you expecting this well to remain temporarily suspended?

TMJ: We encountered some problems at a deeper level during drilling of Khawaja-1 well. We went down to land the casing there, but there were some problems because of the deep hole and tight hole conditions. Currently, a couple of seismic lines are being re-processed and as soon as this processing is completed we intend to sidetrack the well and reach down to the intended target depth in the potential pay zone.

Farooq Najam: So would it be a fair assessment to take about 7-8 months for the wait on this well completion?

TMJ: At the moment, we cannot give any firm timeline to its completion. It will also depend on the availability of a deep drilling rig. After the processing is complete and the rig is available, we will start drilling operations on this well without delay.

Farooq Najam: Moving on to your Sinjhoro development project, have you started dismantling the Dhodak plant? Are you sticking to the timeline June 2011 that you gave earlier?

MRK: We have already planned the full fledged relocation activities which are expected to start in the next three months; however, relocation of the dehydration unit is already done.

Farooq Najam: You mentioned that there was a water encroachment in this Dhodak field. Is there any down revision of reserves in Dhodak field?

MRK: There is water break through in the reservoir of Dhodak field and we anticipate that the current production level may last early next year.

Farooq Najam: Early next year, ok. Moving on to your financial results…

Asif S. Sindhu: I would ask you to give other listeners the opportunity to ask questions too. Thank you.

Farooq Najam: Sorry, thank you.

Operator: We are now moving on to a question from Farhan Mahmood from Topline Securities. Please go ahead.

Farhan Mahmood: Hi, coming towards the major issue with regards to the receivables. It seems that they have gone up to Rs. 82 billion, so what do you expect looking at the situation right now; where there is a flood situation going on in the Country, so do you think the government would be able to disburse the stuck-up funds to the E&Ps or do you expect this could potentially be postponed in the near term? Is it also affecting your drilling activities? You're already short of your current year targets, so can you put some light on it?

Asif S. Sindhu: Yes, this is indeed a very serious issue that is confronting the entire oil sector. It is predominantly a Water and Power issue which has spilled over into the oil and gas sector. As you mentioned at 30th June, it was Rs. 82 billion, it has come down slightly to below 80 billion but the problem remains intact and we are obviously taking this up at various levels with the government. In fact, there is a meeting tomorrow in the Ministry as well, but frankly so far we've not seen a concrete solution coming through, so I don't think this issue is going to be resolved very soon. It may be a few months before some sort of a solution comes out.

Farhan Mahmood: What has happened is your drilling activities have reduced and even if this situation goes on for 4-5 months, do you expect that the OGDCL will become a leveraged company?

Asif S. Sindhu: So far this circular debt situation has not affected us materially despite having Rs. 80 billion worth of receivables we still have a cash surplus. But if you were to look at our Capex plans for next year we have very ambitious capital investment plans which include major projects as well as drilling activity. Obviously, we will need to finance those activities and if the situation gets worse then we may have to go for bank borrowings.

Farhan Mahmood: Ok. Can you tell us the Capex plan for next year?

Asif S. Sindhu: It's about US$ 800 million.

Farhan Mahmood: Currently royalty payables are around Rs. 16 billion compared to last year, so can you provide some light on this issue too?

Asif S. Sindhu: That was a snapshot as of 30th June 2010 but if you were to look at today's number it's down to about Rs. 6 billion again. This is because of the erratic cash flow situation we are facing which has led to our not paying those liabilities in time, however, we paid a major portion subsequently in July.

Farhan Mahmood: One more question regarding deposits. You mentioned that after the compression project at Qadirpur is commissioned, the gas production will increase to 650 MMcfd. Is this the right number you expect your production will eventually increase up to?

MRK: Yes, we expect that the total deliverable Raw Gas plateau at 650 MMscfd after the installation of compression at Qadirpur gas field and drilling of couple of extended reach wells in the Northern part of the field.

Operator: We now have a new question from Muhammad Azfar from Elixir Securities. Please go ahead.

Muhammad Azfar: Good evening, thank you for the presentation. My question pertains to the tax rate; it was a surprise once again but this time on the positive side. Can you explain to us the mechanics as to why is there such a big variation in tax rate, it was around 40% in the first quarter and then it was at similar levels in the third quarter but fourth quarter was much lower. What is the mechanics operationally behind it, if you could shed some light on it?

Asif S. Sindhu: The tax calculation is a very complex calculation and we have taken into account various accounting, timing and permanent differences. Please note that comparison of tax rate with respect to accounting profits is not a true parameter for comparison purposes as the basis of calculation for accounting profits is widely different from the basis used in calculation of taxable income. Reduced tax rate in the 4th Qtr in the instant scenario is attributable to the very heavy Exploration and Development Expenditure (E&D expenditure) and higher tax depreciation, recorded in the 4th Qtr. During FY10, the amount of E&D expenditure for the 4th Qtr alone is Rs 8.571 billion as against the total of Rs 7.226 billion for the first three Qtrs of the year. This expenditure is claimed as an admissible expense in the calculation of the taxable income, as a result the taxable income and corresponding tax is reduced significantly. In turn, this reduced tax when compared with the disproportionately high accounting profits (where E&D expenditure is not claimed as an expense, rather only a part of it is amortized) results in lower corresponding tax rate. Same is the effect of tax depreciation on lowering the tax rate as the total tax depreciation for the first three Qtrs of the year stand at Rs 2.727 billion as against the Rs 1.416 billion for the 4th Qtr alone. It will however be appreciated that the overall YoY results in this respect are quite close.

Muhammad Azfar: My second question pertains to Zin block. Recently there was a media report which mentioned very promising prospects and the tone suggested that OGDCL might be able to bring this field into production in the very near term, so I would like to know what sort of data you already have because as far as I know you still need to perform seismic and all on this block, so can you please elaborate upon whether that media report is totally false?

TMJ: As you are aware that Zin is located in Balochistan, and that too in the frontal part of Balochistan where the surface geology is so prominent that there are large surface features.

Muhammad Azfar: So you mean to say there is no need for detailed seismic surveys over there?

TMJ: That’s not the case. I’m saying that the geological information is very strong in these areas. The other thing is that we have acquired seismic some time back in that block which is quite helpful.

Muhammad Azfar: Can you give us a timeline as to when you will be starting the first well in Zin Block?

TMJ: At the moment it is not possible to start drilling activities at Zin due to the law and order situation of the area, however, as soon as suitable security arrangements are in place we will be able to give a timeline.

Muhammad Azfar: Thank you so much. That was all I have for now.

Operator: As a reminder to ask a question please press *1. We are now taking a question from Fawad Khan from KASB. Please go ahead.

Fawad Khan: Hi, good evening. My question is on the Capex target for this year. Can you please give us the breakdown in terms of development Capex?

Asif S. Sindhu: We don't have the details with us at the moment but I can tell you that it includes a mix of major projects; the projects that are targeting for next year include Sinjhoro, KPD-TAY, Uch II as well as the Qadirpur compression project. Also there is obviously the investment for wells, we have a plan to drill about 48 wells next year and some of these wells are obviously contingent on the security situation. There's a cost built in for that, then of course we have various capital nature items to purchase, like we are also looking at the possibility of buying our own rigs.

Fawad Khan: Ok. What is the number of wells that are part of the 2011 target?

Asif S. Sindhu: The composition of our drilling target is such that we have 26 wells in clear areas and 11 wells in the Uch area and 11 wells in security dependent areas.

Fawad Khan: I would have two more questions, one basically regarding OGDCL for any expression of interest with respect to the BP assets in the Country. Is there any update on this?

Asif S. Sindhu: In certain fields, in which we are partners with BP, we do have pre-emption rights. At the moment it's still very early days. We will first need to do an evaluation of the BP assets keeping in view the economic feasibility of those assets as well as our own cash flow situation. So far whatever we have heard is through press reports. We have not been formally approached by BP or their sell side advisors, if any. As soon as that happens we will mobilize our own team to work on this.

Fawad Khan: One last question on the management. We have been seeing many news items on the management change at OGDCL. Could you please expand on this?

Asif S. Sindhu: As soon as we find out we will let you know. Obviously, we currently have a Managing Director but he is an officiating Managing Director. It is the prerogative of the Government of Pakistan to appoint the Chief Executive and as soon as that is notified to us, it will be made public.

Fawad Khan: Ok, that's all from my side. Thank you.

Operator: At this time we don't have any questions. That will conclude today's Q&A session. I would now like to hand the call back over to Mr. Asif Sindhu for any additional or closing remarks.

Asif S. Sindhu: I thank you all for your participation in today's conference call. If you have any further questions please feel free to drop a line to our Investor Relations Officer, Mr. Usman Bajwa. Thank you very much.

Operator: Ladies and gentlemen that will conclude today's conference. You may now disconnect.