DRAGON OIL PLC
2008 Preliminary results for the year ended 31 December 2008
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Hosted by:
Dr Abdul Jaleel Al Khalifa, Chief Executive Officer
Tarun Ohri, Director of Finance

Operator: Please stand by we're about to begin. Good day ladies and gentlemen and welcome to today's Dragon Oil 2008 preliminary results conference call. For your information today's conference is being recorded. At this time I'd like to turn this call over to your host today Dr Abdul Jaleel Al Khalifa. Please go ahead sir.

Dr Abdul Jaleel Al Khalifa: Good morning ladies and gentlemen, it's a pleasure to be here. And I want to welcome all of you to this annual prelim for Dragon Oil. We had a fairly successful year last year. But before I start I just want to say that this is a forward looking statement, we have quite a few assumptions here, and it all depends on the assumptions we made and the results are dependent on the assumptions that hopefully all of this will happen, maybe part of it will happen.

But in general I want to thank you all for coming here. And today I have with me Tarun Ohri Director of Finance and our Investor Relations Officer Anna. We're here to help you and Anna will be here most of the time in London in the future so you would have more access to Anna hopefully on a daily basis.

Dragon Oil had a very strong operational and financial performance in 2008. Our annual production had increased by about 28% over 2007. We had exited the year at about 45,000 plus barrels per day. We exited the year at about average 40,900 barrels per day as well.

Dragon had grown by 18% in 2008 compared to 2007. There was a growth of 30% in operating profits in 2008 as well. And we ended the year with a strong cash position of about $876 million on our balance sheet. As far as relations with the Turkmen Government we're happy to report that we enjoy a fairly strong relationship. We continue to maintain frequent contacts with people in charge there. And we're hoping for this relation to continue and have strong basis in the future.

We had the approval to proceed with the restructure of Dragon Oil; basically we're going to have a new holding company in Bermuda and with no change in the existing structure of the company. Except that we're going to go ahead with a primary listing in London here and we'll maintain a secondary listing in Ireland.

In terms of 2008 production results we had produced a total of 15 million barrels in 2008. This is compared to 11.7 million barrels in 2007. And this basically translates into 28% growth. On average in 2008 we had made about 40,992 barrels per day as compared to 31,997 in 2007 which is a quite considerable growth considering that this has happened only over one year.

We exited the year with a very healthy position of 45,600 barrels per day production in 2008. This hopefully will position us for a better year in 2009.

Our entitlement of this is about 60% and as you know entitlement depends on the fiscal terms of the PSA and the gross production over the year. We have averaged about US$90.8 a barrel price-wise in 2008. This is quite higher than US$70.9 in 2007. As far as drilling is concerned we had drilled nine wells in 2008. All of them are successful wells. They are now a production list of what is now in the field. The depth of drilling is anywhere between 2,000-4,000 plus metres. The initial test rate depended on the location so it varies from close to 1,000 barrels to more than 4,600 barrels per day. One thing to say is that this will help us optimise well locations and numbers in 2009 and future years.

And the contract for the CIS Rig 1 expired in March of this year and we've decided not to renew this contract even though we had one more year potential extension on the original contract. Our aim here is to go ahead and pick up a better rig that will enable us to drill higher slanted wells, achieving high productivity, have more pumping capacity and more horsepower capacity to drill. We have a tender already going out, we had quite a number of bidders on that tender. We are right now in the technical evaluation stage of this tender.

As far as the Iran Khazar rig is concerned we finished with the maintenance overall about a month ago, it's already started drilling right now. The contract of the Iran Khazar expires in May of this year. We are at a good negotiation stage with the Iranians on the Iran Khazar. I hope we can report to the market positive news within a month or less than a month.

On Rig 40, this is our own rig, it's completely refurbished, it started drilling about a month ago or so, more than a month ago, and it's currently operational and it's in good shape. I told you about the new land rig and we're currently in the technical evaluation stage of that rig.

So in general we have Rig 40 that is for sure, we have the Iran Khazar, we are negotiating with them, hopefully completing negotiation in a short time. We have the new land rig tender. We're also talking about a potential fourth rig before the end of the year. Now that fourth rig may not be on a permanent basis, it could be on a part-time basis, so we have it for six months a year in future two years or so.

In infrastructure we had Phase 2 upgrade of the processing facility, the contract is already awarded. The engineering work is already at a good stage right now. We started acquiring material for Phase 2 of the processing plant and this is hopefully going to be completed before the end of this year.

On the export facility Phase 2 is completed and we are right now using the facilities there at full capacity. On the gas plant we are going to talk about it later, but basically this Phase 2 expansion of the central processing facility will allow us to process up to 100,000 barrels per day total liquid. I just want to tell you that the current facility can handle more than 60,000 barrels a day. So there is no question as far as our daily production right now because of this processing facility. We're still at 45 or so, this can go up to 60,000.

The only gain we get by this Phase 2 is for additional production in future years as well as for gas separation, which we currently separate offshore and flare it offshore. This would allow us to bring gas onshore and separate it onshore.

We had a lot of contracts on upgrades of LAM 13 and 28. We also are in the middle of constructing a new platform called LAM B. This is our platform, it's for jack up drilling. We are also at the final stage of adding three tanks in our tank facility. This will allow more flexibility, more capacity to store crude and load. And we're in the middle of constructing a 30 inch trunkline that will take oil and gas from offshore all the way to onshore to the processing facility. And this is very crucial for the gas monetisation process.

On the gas monetisation the two main projects, which are basically the trunkline and the expansion of the processing facility, have been awarded in 2008. We're hoping to complete them before the end of this year.

On the FEED study, which is our Front End Engineering Study for the gas plant, we did complete the proposal; it's with Turkmen authority for approval. Once approved we'll proceed with it, it will take up to six months. Again after the results of the six-month FEED study, we'll hopefully go ahead and seek approval of the Turkmen authority to go ahead with the gas processing plant tender.

And the gas processing plant tender will take about three-four months to complete the tendering process, and then the plants will take about 18 months to two years to be commissioned.

The Government of Turkmenistan is very much supportive and interested in proceeding with this gas processing and gas monetisation.

On the marketing activity I'm happy to report that there are no bottlenecks in the process, we've continued to export 80% through our certain route through Iran where we deliver the oil at Neka North Iran, and we can get a similar volume from Kharg, Iran, or they sell it for us on behalf of Dragon Oil according to the marketing agreement with them. 20% continues to go through Baku, Azerbaijan. We are still in the process of exploring other routes if we need to, either through Makhachkala in Russia or the BTC, Baku-Tbilisi-Ceyhan pipeline. All in all I think marketing is not a threat to us. We're happy with current arrangements. We've never had any problems marketing our crude in the past years.

On the reserve and resources Gaffney, Cline and Associates completed a study and it had incorporated all the latest results of the seismic data. We're using modelling for the first time; we're incorporating seismic data and geological data into a 3D simulation model. These results were used by Gaffney Cline to firm up the reserve and resources we have. Fortunately the numbers came as good as or even better than before. The P2 reserves are about 636 million barrels of oil, if which 296 million barrels is our company's entitlement. On the gas resources, it's about 3.2 trillion cubic feet. Just want to tell you that part of this will be reserves once we strike a deal with the Turkmen on the gas plant, processing approval as well as the gas pricing formula. And we hope that this will be done in 2009.

On the corporate restructuring this is a bit of a change in the sense that it will allow us more flexibility in the future, in our future business ventures and our future business opportunities. Because once we set up this company in Bermuda, this holding company in Bermuda, then it can be more tax positive for our future franchise and basically coming years. And I want to at this stage invite Tarun to shed some more light on this and to proceed with the financial results.

Tarun Ohri: Thank you Jaleel and hello everybody. On the corporate restructuring maybe I can throw some additional light on what's already there up in the slide. As far as Dragon Oil is concerned, over the recent past we've not had any commercial interests in Ireland. Our businesses, our major assets are outside of Ireland. Our major shareholder base is also outside Ireland.

We've had our headquarters in Dubai since mid-1999. We have also had our board meetings there and AGMs are also out of Ireland. So the objective was to structure or have a corporate structure in line with our legal and commercial interests. We looked at various proposals, various locations, and we found that Bermuda is one of the most logical jurisdictions to go to. It has stable regulations, it has a lot of international focus. And there is a fair amount of companies based out of Bermuda who are listed on the London Stock Exchange. This obviously gives us a more efficient tax structure. Going forward our new business ventures can be structured under Bermuda and we'll be able to go ahead without disturbing the existing tax structure. That will remain the same for the existing business, but it is a positive structure as we forward, as we move on.

We look at the financial overview, look at the average production. As Jaleel discussed, our production entitlement values are a function of the Production Sharing Agreement. It depends on how much we spend, what the oil price is. So the fiscal terms of the PSA allow flexibility in terms of our entitlement value. Going forward when we spend about $700-800 million we expect the entitlement to go back up to 70% but it all depends on the amount of capital we can spend, and also the oil price during the period, the next three years. So that's a positive part. The production sharing agreement is structured in a way that if you are able to spend $700 or 800 million the entitlement would be higher than the current 60%.

On the top line, the revenue, our revenue went up by 18%. That is a function of the realised oil prices we were able to realise oil prices at a discount of 6% to Brent. Previously I think last year was also close to that number, it was between 2 and 3% discount to Brent. Our realised prices have been able to mirror Brent prices, which is a good achievement as you know for the marketing department in terms of being able to mirror and achieve those prices.

Our cost of sales has remained stable, around 190 and thereabouts. We talked about the income statement; we can throw some more light on the cost structure. The revenue for the year was up by 18% and that was based on $7 ½ million barrels sold at close to $91 per barrel for our realised prices. There was also an element of an underlift in the revenue of about $23 million, and this underlift is a function of the PSA works. We probably at any point in time might not be able to export all our entitlement value. So the difference between what we will export and what we are entitled to export is an underlift. And the accounting trend suggests that these need to be valued at market cost, and they're included in terms of revenue. So this underlift value would come back to Dragon Oil this year and we'll be able to sell it and realise cash for that.

The cost of sales was $193 million; a majority of the cost of sales is depletion charge of $149 million. The depletion charge is calculated based on the capital expenditure over the field development as well as the reserves. And our current rate is about $16.7 a barrel of the depletion rate.

The field operating costs are around $30 million. They've been stable around $30-40 million, and we've tried to ensure that our operating cost base is stable at around $4-5 per barrel on working interest basis. We've got the depletion, then you've got administrative expenses of $38 or 40 million. These include staff costs and also fair value losses on derivative financial instruments which was about US$21 million this year. And you are aware that we had 3.8 million barrels of zero cost collars in place at a floor of US$45 and an average cap of US$102. So there was a loss on both because of the fair valuation of about US$20 million.

The financing sum of US$25 million is a result of higher cash balances. We've earned interest between 2.8-6.5% on the cash balances we've maintained. And all the cash is maintained with international banks at the minimum rating of A, so we ensure that these are well placed and spread out and the exposure to risk is minimised.

I'd like to talk about the income tax expense. The effective rate of income tax for 2008 is 26%. This is the result of the Hydrocarbon Resources Law which has kicked in towards the end of the year 2008. And at the balance sheet date we have accounted for income tax at 25%. So prospectively going forward we will be accounting for tax at the rate of 25%. Historically it'd been 20%, and in the financials we've accounted at 25% going forward.

The next slide is on the cash flow statement. It shows the opening cash of US$375 million. This is cash and cash equivalents, representing cash balances or term deposits less than three months tenure. Then we have cash from operations of US$579 million, which if you see was the cash generated by operations of US$664. We paid tax this year which was related to 2007, we paid in 2008 about US$85 million; that takes us to US$579. US$12 million was received from the issue of share capital, primarily options to directors and employees. Cash from financing activities we've talked about is interest income on our average deposits maintained during the year.

US$288 million is the capital expenditure outflow. This capital expenditure was on our drilling. We completed nine wells, we had walkovers and there were some infrastructure projects. 60% of it was for drilling activity and about 40% for infrastructure. But as we go ahead, infrastructure we ramped up in terms of expenditure which we'll talk about. US$253 million is the term deposits. These deposits are for terms greater than three months. Our current policy is to keep the company well funded and balanced from deposits which are available for infrastructure growth and for the needs of the company. So we could say there is a split of about 50%. 50% is less than about three months and 50% is greater than three months.

So going into structure deposits or high yield deposits is not our goal, our treasury function is not a profit centre. So the primary focus is on security.

Going to the balance sheet we have a strong balance sheet. Our assets have the additions of US$288 million we had a depletion charge like we mentioned of US$149 million that added to our net tangibles and assets we've added about US$136 million. The next line item is inventories and trade receivables. Our inventories are about US$56 million. A large part of the inventory is drilling supplies, which we maintain in Khazar at our base. The crude inventory is a small number of the total inventories, crude inventories of only about US$18 million.

The trade receivables included in that sum of US$115 are trade receivables of about US$59 million. Cash and term deposits we've already mentioned is US$876 million. This includes an amount of US$92 million set aside for abandonment activities. So that is not pre-cash or relevant to us, it's set aside specifically for a purpose.

Going ahead we have the non-current liabilities. A large part the non-current liabilities is the deferred tax which we've underlined as we go forward. This arises out of higher depreciation charge, which is allowed under the PSA. So there is reduced tax currently but it unwinds as we go forward when the depreciation allowance is not available to the company. Under the PSA we made depreciation allowances available for a period of four years when the asset is depreciated over four years and whereas in the books you depreciate over a longer period over the term of the PSA. So that's a tiny difference.

Our current liabilities of US$242 million, a large part of which is current income tax liability, which is US$100 million. The other items are stable and the amount of $90 million is towards abandonment and decommissioning liabilities. So it's a large number and we hope to reduce this liability number by moving our A&D abandonment and decommissioning fund out into an extra account.

The next slide is on capital expenditure. Our total expenditure of US$287 million, 60% was on drilling projects. And we drilled nine wells, there were workovers, we did workover of two wells in 2008. And besides the drilling we spent 40% on infrastructure development, which included platforms and pipelines and a lot of work is still in progress, which includes the trunkline, a major part of that expenditure will be incurred in 2009.

So that concludes my part of the financial, I'll hand it over to Jaleel.

Dr Abdul Jaleel Al Khalifa: Thank you Tarun. I know for sure you wanted to know what we plan to do in the coming three years. Actually it is quite important. So we plan to drill up to 35 wells over the coming three years. Eight of them will be in 2009, and then well as we make rigs available we're gearing up drilling in 2010 and 2011.

On the production rate, we plan to maintain 15% growth on average basis, on an annual basis over the coming three years. Then also if you would like to know how much this year, how much next year and I'm afraid that I have to buy this flexibility from your side. So consider it 15% on average over the coming figures. I hope as the year goes on we can come back with a more fair analysis of how much this year, how much next year.

On the capex it will be anywhere between US$700-800 on infrastructures for the coming few years, out of which US$300 million will be this year. And to be more specific from the US$300 million in 2009 a big chunk of this is for the trunkline, which is US$170 million. Another chunk is for the processing facility expansion which is about US$40 million. Plus a new LAM B platform, which will be in water.

Other money for 2010-2011; we plan for two new platforms. We plan for other pipelines in the field, for other additional upgrades. One thing that we plan to do is to optimise the utilisation of the current infrastructure we have. So if we have platforms which had six-eight wells, instead of putting a new platform for a cost of US$50-100 million you can easily go to the existing platform and add an upgrade to it for up to six more slots for a cost of US$10-15 million. This makes it more cost effective, faster to utilise, and it gives you a good flexibility in your operation.

On the drilling side we're not holding back, it all depends on how many rigs are available. If you have an asset like the one we have, and if you drill most wells, if not all of them, and they come to be productive, there is no harm of drilling more wells and making more production because you make money anyway. But we have to continue to strive to find rigs that are capable to meet our objectives. But just to simplify the matter, in 2009 I would say that it could be US$200 up to US$300 million in that range. In future years the spending would be in the same range if not more.

On the gas development as I told you before once we have the field completed, the FEED, once we get the approval then we'll tender for the gas plant and the gas plant could be anywhere between US$100-250 million, depends on the capacity, on the specifications you have at the plant. Do you go just for chilling or do you go for full recovery or for LPG recovery? These are different options you could have in the plant.

Well hopefully we're going to complete eight wells this year, it is using Rig 40, the Iran Khazar, and the planned rig that we intend to award the contract for within the second quarter. On the capital expenditure the US$300 million as I said before are for the trunkline and the processing facility. We'll do our best to commercialise the gas resources and convert some of the resources into reserves. This can be done through various options, the fast and the quick one is if the Turkmen government would accept to receive our rich gas, that will come out of the new processing facility, without condensate and liquids. That will be the greatest and fastest option because that means we can realise value for the gas starting next year. If the Turkmen government would insist that that gas should be processed, should be dried, that means we will not realise the value until 2011-2012.

We will continue to diversify our asset base and I'm sure some of you would question how far you have done this one. And I can tell you we had attempts in the past few months, we were overbid by other clients or other interested parties. And I have to tell you that to do it on a commercial basis, we'd like to add value to the shareholders, we are not in just for adding assets. We run into a market where there is competition. Some of the market competitors, they do it for other motives, besides commercial basis. And, therefore, we have to strike the right assets at the right time. Our team is active or looking at various options. Nothing is mature yet or at a stage where we can report it. I would seek your patience a little bit so we can hopefully mature a good asset at the right time.

I want to thank you all and I'll open the floor for questions for me and Tarun here. But one thing that we did not touch base on and I want to touch a little bit on before you start with questions is the current investigation that we have. We've reported some of the results in the press releases so far.

On a conditional basis we did report a lot of details as the process is still ongoing. Obviously I just want to share with you my own experience with this. I came in May 2008 to this company and I started to have my colleagues working on and they had a feeling something is not right. It took us some time; in October 2008 I assumed full authority as a CEO and Executive Director. I had to work on this harder and harder to put my hands on valid and fair evidence. As we approached the end of the year my feeling got stronger and my belief got stronger that there is something wrong. We got our internal audits working on this, then we invited KPMG to help out. Our feelings were right, there was something wrong. There were a few managers who were active in the company before, they had been colluding on getting some personal gains out of commercial contracts and procurements. It's not a one year only, it's more than one year.

The good news is that it has no impact on our financial statement whatsoever, no material impact. We are talking to contractors; we are heavily working on this as we speak. We have lawyers, internal and external, in the UK and Dubai, we're talking to authorities. I can assure you we are at a good stage right now. We could see how extensive it is. We could have a feeling of the size of the matter and we have good faith that we are putting our hands around this. It has a fairly positive side for our investors. We, I myself as a CEO, my board and my management team, we can be as sharp as a knife to people who do this unethical stuff, but we're as sweet as honey for people who have done the right thing. We have no tolerance for these things. We are determined to clean it from A to Z and we're willing to take this to whatever it takes to make sure that things are put in perspective and things are done right. I may not be able to answer your further questions on this as you might imagine, we don't want to jeopardise our investigation. We are still in the middle of this and now I'll close it at this stage and I'll be happy to take any questions, myself and Tarun here. Please go ahead.

Q&A

Taleh Musayev, Bank of America Merrill Lynch: Good morning, Taleh Musayev, from Bank of America Merrill Lynch. Congratulations on good results. I have three questions. The first one, have you seen any fall in the decline rates for new wells? As far as I understand the decline rate at new wells at least in the past was around 50% in the first 12-18 months. The second question is about gas commercialisation. You mentioned that you expect to sign a gas contract in 2009. I have read about having some difficulties with these gas negotiations with China and Russia. Have you seen any impact or new negotiations on gas? And finally the third question, how comfortable are you that you have to have a third rig by the year end? If there's any possibility that you might not get this, additional rig in 2009 and you will get it in 2010? Thank you very much.

Dr Abdul Jaleel Al Khalifa: Ok, thank you, let's take it one at a time. On the decline rates it all depends on where you drill the well. In our field, which is extended east/west and with the complex combinations of sand and shell, with a few faults in the field, the most I'd say the depleted or produced area is the section on the east, which is closer to the shoreline where we had production there since day one. There was some side of the field, which is a little bit offshore further from the shoreline, it is not depleted, it is fairly strong. If you look at what is actually drilled in the west flank, decline there is fairly minimal because the pressure is still very high. If you look at the wells in the east where there was high production, decline is as high as 50% in the first year. So it all depends on where you drill the well. The good news is that in the future we have a good split of our wells locations; we're going to start focusing on the west sides where production is higher. And this might explain why we lowered our wells requirement to eight wells this year. For two reasons: one is because we wanted to buy some time to get a better rate to drilling, and the second is the field because we can optimise our own locations to higher production areas.

On the gas commercialisation I cannot comment on the Turkmen negotiation with Chinese or Russians, but I can tell you they are very much interested to get our gas as soon as we finish. And I can tell you that they are good enough not to take it for nothing. They know that we're expecting as part of the PSA to get some value for this. Now how high a price we can get I'm not sure, we haven't started yet, but I would imagine that the Turkmen government can get customers for their gas anytime. They can sell east or north. Incidentally on 23-24 April we're invited to attend a UN Turkmen conference on transport of energy which is a United Nation conference hosted by Turkmenistan. And we're invited among a delegation of UAE to be there.

On the rig availability I can tell you when we closed our tender we had a good number of bidders there. Majority of them are good, reliable bidders. We started technical evaluation. I cannot tell you for sure now how long they need to mobilise and the specifications of the rig, and we did not open the commercial discussions yet. But I have a feeling that we'll be able to close this hopefully within the coming two or three months. And I'm not worried about a land rig because there are a number of land rigs available now in the market, and the rate is reasonable, I don't think it will be excessive. But I hope we can negotiate a good deal in terms of price and in terms of mobilisation time. But I have a good faith that before the end of the year we'll have three rigs in our operation.

Peter Hutton, NCB Stockbrokers: Peter Hutton from NCB. Can you just go to page eight where you went through the various stages of the infrastructure needed for the gas monetisation and the lead times of each of those points? Can you run through those again in the light of what you were saying about hoping to potentially monetise the gas by the end of next year if it's wet gas rather than the dry gas? Because it looked to me even without the liquid separation that was going to be quite a challenge.

Dr Abdul Jaleel Al Khalifa: There are three parts, let's talk about two options. One is the wet gas option. All you need for the wet gas option is a trunkline, which is already contracted and awarded and a processing facility to separate the gas from the oil onshore. Once you have that gas separated onshore, then the Turkmen counterparty is putting a compression station across the road from our processing facility. Then what we need is – we are touching base with them right now – if they would accept that wet gas at that stage which is towards the end of the year, if both projects are completed in time, then what we need is just wet gas that goes from our processing facility to that compression station. And for that reason I would think that having all of this done on time, every part of next year is not far from realising; provided that we reach an agreement on the pricing of the gas this year. Now if they insisted they would like to have dry gas then you would need the gas processing plant. Now the gas processing plant you need to go with the FEED study this year and we're waiting for their approval. It will take up to six months. And then after we get the results of the FEED study then you go and tender for the gas processing plant. Then this tender should take about three-four months to finalise the approval. Then you need anywhere between 18 months to two years to put the plant together. So we're talking about in 2011 maybe 2012. Now which option will be attractive to us? The wet gas option is more attractive because we would start making money, we would basically convert the resources into reserves fairly soon.

Peter Hutton: Would you say if the gas goes north, is more likely they would want dry than if it goes south?

Dr Abdul Jaleel Al Khalifa: I cannot tell you because it all depends on the system they have. Where you link to the existing network, it will determine you go north or south. Because when they sell to Iranians is not a big volume. And apparently they sell to them from the fields that are not far from the borders. We are a few hundred kilometres north of the border so maybe the time they put our gas into the system it's already in a system that go either north or east or somewhere else. So I wouldn't go into that detail yet. It all depends how successful their system of arrangements.

Simon Hawkins, OMNI Investment Research: Simon Hawkins from Omni Investment Research. Just two questions: one I wonder if you could give us a bit of advice on when the time of the LSE listing could be. And secondly on rig rates in the Caspian Sea region just wondered if you could comment on any trends you see on rig rates?

Dr Abdul Jaleel Al Khalifa: I will take the second one and I'll have Tarun comment on the first one. On the rig rates, rates are coming down for the land rigs. I cannot tell you exactly because we did not open the commercial discussions yet. And it depends on the specifications of the rig. 2,000 horsepower, without a discharge facility is going to be cheaper than a few thousand horsepower with more specifications. For the jackups it's unfortunate that Caspian has not had a lot of jack-ups flexibility. They only had three jack-ups besides a few old systems that are there. Now for these jack-ups there are quite a good number of customers competing. The current contracts with these jack-ups were signed three years ago or two years ago when the oil price was low, when the rates were low. So if you were to think about an extension of an existing contract now, you would not see a decline in the rates of the jackups. Because your original price was not high. But if you were to compare the expectations of the owner of the jack-up during last year, and now the expectations are lower because they become more reasonable on the price. But we are at a good stage in negotiating about the Iran Khazar. I think it's a fair price for us and them. And once we secure this extension we'll report it to the market.

Tarun Ohri: On the investing are you talking about listing on the London Stock Exchange yes? Today's report sets in a timeline for this, and details of that will be circulated in the detailed schemes of the Prospectus, which currently is being worked on. The objective is to have primary listing on the London Stock Exchange. We take advantage of index tracking and more focus on our stock. We would also have secondary listing in Ireland because historically it's been there, we have Irish shareholders so that's how it's going to move.

Richard Griffiths, Evolution Securities: Good morning, Richard Griffiths from Evolution; can we just ask you about your cash balance and your capex going forward? First of all, what is the cash break even for your business to start with? What are you planning over the next three, four years for the oil price? And looking at your capex plan it looks to be in the US$900 to a billion and you obviously start with just shy of US$900 million. So if you were to accumulate more cash, in terms of that cash what are you going to do with it? I know you're saying you want to do deals but where would you go and how much of that cash would you actually spend? Because that's quite a big pile and it's 2/3rds of your market cap at the moment.

Dr Abdul Jaleel Al Khalifa: I'll give it a shot and then I'll have Tarun comment on this. We had been actively pursuing opportunities, because you know we had cash. It's a good position that we are in right now. It sends a positive signal to our counterparty in Turkmenistan that if and when the price is coming down, the oil price, this company is still interested to invest. So that itself is an intangible and maybe not transparent to people outside the company but it's fairly good for us in our relation with Turkmenistan. And this is why when we reported this year that we're going to invest up to US$600 million we were a little beaten in the market, how come this company when the oil price is down, they still invest this much money, but it's good. It's good in the long-term for the company; it's good in the long-term for the government there as well. Now I don't think that we will continue accumulating a lot of cash without utilisation because there are a lot of potential opportunities in the market for future expansion and acquisition. Now you could say so what would be a reasonable target for acquisitions? How sizeable is that position?

I would say we'll be careful not to stretch ourselves and deprive ourselves of continuing to work with these excellent assets we have. We have the agreement, we have growth of production, and everything pulls towards investing more and utilising these assets more and more. But that said we still have a chance with our current cash position that we can invest even up to I'd say, easy a few hundred million dollars in a new asset without harming our current interests in Turkmenistan. Now I can't be more specific than this but we are focusing on assets that can cost up to US$300 million you know. So I'll go back to Tarun and the break even cash.

Tarun Ohri: Yes the cash cost, there are three components of it. One is the cash cost, which is in-country cash cost. The second component is the G&A cost overall from the company. And the third would be the marketing abroad. For these three components, the in-country operating costs are between US$4-5 a barrel. The G&A costs are between US$2-3 a barrel. Our marketing cost comprises of transportation and swap is about US$2 a barrel. So that would take us to a number like US$10 or 12 a barrel as a range for cash costs. Non-cash costs are the depreciation, which is around US$16 or 17. That would take us in the range for cash break even about US$10-12 and profit break even between US$25-30. I'm going to give you broad ranges just to give you an order of magnitude. So that is with regard to our breakeven point. But like Jaleel said our assets in Turkmenistan have enough opportunities for us to invest in safe financing, it's a great asset in terms of the production sharing agreement terms and the reserves. And going ahead we see comfort to be able to finance diversification using our cash balance to the maximum we can leverage that, there's enough evidence that financial markets have enough appetite for debt and some small appetite for capital as well, but probably it's not the right time. We need an opportunity and then we are in a position to leverage that.

Richard Griffiths: And when you look at opportunities are you looking at what regions?

Tarun Ohri: We don't want to move very aggressively. I would be more interested in more of production development type of acquisitions. Unless it so happens that the oil is in the middle of a very prospective region with neighbouring blocks with production targets and this and that then it's attractive. And it also has to do with the type of asset. But I would be more inclined to say that our board and company could easily decide on a production development, it would take a bit more time to decide on acquiring any exploration block.

Dr Abdul Jaleel Al Khalifa: Do we have questions from those on the conference line?

Operator: We have a question from Caren Crowley from Davy. Please go ahead.

Caren Crowley, Davy: Good morning and congratulations on the results. A few questions for you. First of all, the well that you drilled with Rig 40 was water wet; what are your thoughts now on that part of the field and in particular I suppose, is there any read through with respect to Dragon's reserves? The second question for you would be the new structure, corporate structure that you're setting up, you talked about it being tax efficient for the purposes of new venues or asset acquisitions; could the same be true or said of the fact or the possibility of paying out shareholders via dividends? Third question would be on depreciation. This year it was roughly $16-17 per barrel, you guided that capex will be higher in the coming years. Do you see the depreciation charge moving higher too? And I guess a final question would be roughly now at $50 per barrel benchmark crude price what sort of discount are you getting for your crude at the moment?

Dr Abdul Jaleel Al Khalifa: Ok I'll take the first and the last and then I'll leave the second and the third for Tarun. It's good for me to choose the easy ones to address too. On Rig 40 we are currently drilling a well in the East on Lam 13 and there is a fault – it's unfortunate that I don't have the visual here to share with you - there is a fault that cuts through the field, separates the northern part of the field from the southern part of the field. On the western side of the field we evaluated the field and it's oil on both sides of the fault. And this part of the field we drilled south of the fault, and it was an opportunity with this well to evaluate that section. So we designed this well as an evaluation/producer. When we drilled this well we intercepted the fault, we moved into the second part of the field with the well. Unfortunately, it happened to be water bearing, it's not oil bearing. So we said instead of us going into deeper sections and again hit more water in deeper section and lose the opportunity of gaining production in the short term, we've decided to cement up this section and sidetrack into the northern parts, which we know fairly well and are oil bearing. The good news is that we did this about two weeks ago; we currently have good oil sections so far in our drilling. We have not completed the well yet. And this is something normal if you work in this oil industry, especially in the drilling appraisal business. We are so fortunate in Dragon that we didn't have so many wet wells or dry wells. So from time to time when you evaluate a reservoir like this you expect to see which sections here or there and sidetracking a well is not something risky or dangerous, we had taken the right decision. That's the answer so far.

On the last question, the discount you said; it all depends on the arrangements you have for the marketing. I'm talking about the Eastern route. We sell on an average Iranian Light price which is an average amount buy price plus a little discount for marketing. On the Eastern route, we had more flexibility in the recent contract. And instead of selling FOB at a brand with a discount of US$6 up to US$8, we have a good arrangement now which is quite preferable for us. We are selling FOB instead of taking, so we don't care about shipment or cost of shipment with a much more attractive discount than what it was before.

So all in all I think we are having better marketing arrangement, better flexibility for our crude. I don't want to be more specific on this one because it's a commercial item that we want to keep confidential, it will help us with the future negotiation, with future contracts.

Tarun Ohri: You had a question on the corporate structure. Dragon Oil as you're aware we do not plan to declare any dividends presently but the board is looking at various options. We feel this structure gives us flexibility for new businesses going forward. The tax structure for the existing business and the cash generating operations in Turkmenistan will be subject to the current tax structure.

And we have a lot of demands for our cash in infrastructure and drilling operations over the three years and the board continually reviews the dividend policy and the possibility of dividends. So that will be addressed by the board as we go along.

You other question was on the depreciation of about US$16-17 a barrel. The depletion actually is calculated on the basis of reserve base and capital expenditure. So the capital expenditure for the whole field development does not change substantially. We have built into the field development costs the inflation factor already so that's already factored in by the Gaffney Cline numbers for the capital expenditure in the field development. The reserves, our entitlement reserves are determined by our view on oil prices. Our long term view currently is at US$70. If the view changes and the reserves calculated under the PSA would change but it will not have a major impact on our depletion rates, so we would expect the depletion rate to stay stable between about $15-20. It is not going to impact our depletion rate.

Question: Gentlemen can I ask a couple of quick questions please?

Dr Abdul Jaleel Al Khalifa: Yes please.

Question: Two quick questions. You mentioned a gas agreement and the possibility that some of the contingent gas resource can be converted into reserves on the P2 basis. Could you give us some guidance as to how? Yes, the second question is for Tarun, when he said the life of the reserves, is he talking about the life of the field basis, in other words capital expenditure is calculated over the life of the field per barrel?

Dr Abdul Jaleel Al Khalifa: Ok I apologise I'm not sure I understood all the questions because we were cut out. But the first one it was – we have indications from Gaffney Cline on how much we can convert from resources to reserves. But again it all depends on the pricing formula and when it is happening: this year or two years from now, if it's rich gas or dry gas. So I would say a good volume of gas can be converted to P2 but I wouldn't be more specific than this. Tarun?

Tarun Ohri: Yes on the capital expenditure, they have a field work plan which is applied by us, they review and they audit the expenditure on the basis of what we have achieved with our tenders at current cost to date. So the cost base of capital expenditure is pretty robust because they have checked it, they have reviewed it. And the reserves like we said 296 million barrels are our entitlement at US$70. We have some sensitivity, which we reported in our annual report, which says that what happens if our long term view is US$50 or US$90. There is an amount of sensitivity and the reserves would decrease by about 5% or 10%, that's the range.

We are comfortable with the reserve base as well as the capital expenditure profile over the field development plan.

Question: Thank you very much gentlemen.

Gerry Hennigan, Goodbody Stockbrokers: Good morning I'll try and keep this brief. Just a few points of clarification. One in terms of your hedging policy can we assume that you intend to remain unhedged going forward? Two in terms of tax, is the only impact is the 25% tax rate? And three in terms of monitoring your gas development will there be any costs associated with this to you apart from building the onshore plant?

Dr Abdul Jaleel Al Khalifa: Ok, Gerry, on the hedging we don't have any hedging right now, no derivatives. And overall, I'd say, trend in the company is to have a bias against hedging. So I don't think we'll get into hedging in the near future unless we have to. And unless it is very strongly justified. And the only change that would impact our operation is a tax change from 20 to 25%. I don't see any other changes.

The third one is on the gas monetisation. For the gas monetisation Gerry well if as we said besides the trunkline and the gas processing facility there is not any additional cost as far as rich gas. But had we gone into the new gas option which is probably most attractive for Turkmen then we have to put the gas plant together. And for the company in the long term the gas plant is very attractive because you're talking about condensate recovery, LPG recovery, so it will more than pay for itself plus running a cost recovery operation here.

So either way it is attractive for Dragon Oil.

Gerry Hennigan: Ok thank you very much.

Operator: It appears we have no more phone questions at this time.

Dr Abdul Jaleel Al Khalifa: Ok well I want to thank you all, thank you for coming. I hope that future results are as promising if not better than now. We the management team are geared up to a fairly active year in 2009. The management team I can tell you for sure is very coherent, enjoys a very high team spirit, and we are running with a fairly systematic procedure and approach towards our relations with the Turkmen authorities and with our operation. Please feel free to come back to us, to Citigate or to Anna; Anna will be based in London here at our office so you can meet her if you come here in the future. You can talk to me or send me emails anytime, Tarun is available as well. We're here to help you and we welcome all of you to our future meetings, thank you very much.

Operator: Ladies and gentlemen that will conclude today's conversation you may now disconnect.