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**Presenters:** **Dr Abdul Jaleel Al Khalifa, CEO**
**Tarun Ohri, Director of Finance**
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**Dr Abdul Jaleel Al Khalifa:** Good morning ladies and gentlemen, it's our distinct honour and pleasure to welcome all of you here to hear some good news about Dragon Oil. With me here is Mr Tarun Ohri, our Director of Finance in Dragon Oil; and Philip Wolfe from HSBC and Abbas Merali from HSBC. As you know HSBC is now our advisor along with Davy.

Today we will share with you some news about the mid-year results, we will give you some operational updates and then we'll talk about financial updates and then we'll talk about the outlook in the coming few years.

Our gross production in the first half of this year increased by about 11% compared to the first half of 2008, averaging about 42,808 barrels. Entitlement increased to 65% and that's because of the lower crude price this year and because of additional expenditures we had. On the drilling side briefly, we had completed two wells in the first half, two wells had been put into production in July-August, so far we had four wells completed this year and we are drilling the fifth and sixth well as we speak today and hopefully we're going to have the Astra jack-up rig starting in November this year.

On the facilities side, I would like to tell you that our Lam B platform is being installed right now and should be ready for drilling by September-October this year. We have also added three tanks to our storage capacity and we have upgraded phase 2 of the Aladja Jetty for oil transportation.

If we go into more detail and talk about production and marketing, we have produced about 7.7 million barrels in the first half of 2009 and this is an 11% growth on last year. Our entitlement in the first half had been 5 million barrels which is at 65% of gross production. This is compared to 54% in 2008. As you know entitlement goes up when the crude price goes down because the cost is the same almost as I will show you later on. We have sold 4.9 million barrels after 0.1 million barrels adjustment because of the difference between uplifting between last year and this year.

We had realised a crude price of almost $40 in the first quarter and $60 in the second quarter, so on average it's about $50 in the first half of this year. We certainly hope that the rest of this year will see a similar price if not higher than in the second quarter of this year. We continue to export into the two routes, one is via Iran where we exported about 90% of our crude through Neka and 10% via Baku, where we had a good crude tender started in March this year for Dragon Oil and we will continue to do this for the rest of this year. We continue to monitor other routes like Baku-Tbilisi-Ceyhan or Makhachkala in Russia for potential usage in the future if we need to.

Let me go to drilling and drilling has been quite active. We have two full-time rigs operating right now: Rig 40 and the Iran Khazar. We have tendered for a platform-based rig and the tender is currently in technical evaluation. We hope that we can award the contract for this rig to start drilling in Q4 of this year. We have also had a commitment from the Astra jack-up rig to start drilling with us in November for six months and then as usual the Astra jack-up rig is being used in the north of the Caspian Sea during the summer and we hope that we continue to use it in the winter in the coming years as well. Every time we get the Astra rig we drill two wells and then it goes and comes back again in November-December to drill another two wells.

So far we completed two wells in the first half of 2009. We also completed two wells in July and August, so four wells completed so far by now. We have currently already commenced drilling the fifth and sixth wells and we hope that by the end of this year we will have completed eight wells.

On the infrastructure side, Lam B, a platform based in the west of the Lam field, we think it’s a very prolific area, is being installed now and we will start drilling in Lam B before the end of this year. Another upgrade of another platform, which is Lam 63, has been completed as well. We have also completed the upgrade of the Jetty terminal where right now we can load two tankers at the same time from both sides. We have added two slots on one of the platforms, which is the Lam A platform, and this is to add flexibility to our drilling operations at a very cost effective approach. Instead of putting a new platform you just add slots to the existing ones at a reasonable cost. We have added three more storage tanks to our facility to allow more flexibility because we are preparing for higher production in the future. Incidentally this is a management meeting in one of our boardrooms at our Dubai headquarters.

Talking about gas monetisation, as you know we have awarded the trunk line and upgrade of the CPF (Central Processing Facility) Phase 2 contracts last year. These two are still going on, however they may slip behind schedule a little bit. We are working to do our best with the contractor to make sure he delivers on time, but there is potentially a three-six months' delay in this. We have also tendered for the Front End Engineering Design study and we’re currently waiting for the bids to come around and we are going to complete this and award the feed hopefully some time this year. This will take about six months and then we’ll work on the engineering, procurement and construction contract of the gas processing plant.

While we do this we are currently working on a process to deliver rich gas to the Turkmen system and the Turkmen system will be ready some time later this year, around December. So if we could deliver rich gas by the early part of next year, that means we will start realising the value of the gas not after three years but rather starting next year. We’re going to start negotiating on the Turkmen gas contract and the pricing formula for the gas some time in Q3, Q4 of this year.

This is the end of the operational update. I just want to close and say that some time late this year by November, December we will be having four rigs operational at the same time, three permanent and one part-time which is the Astra jack-up rig. This will continue into next year and we're going to tender two new platforms, which is Lam C and Zhdanov A, hopefully some time this year they will be awarded and they will be ready within two years to be operational for drilling in that time.

I will turn it over to Mr Tarun Ohri, our Director of Finance to give you a brief update on the financial review.

**Tarun Ohri**: Good morning everybody and thank you Jaleel. We'll just go through a couple of slides on the financials, which include the income statement, balance sheet and a few other details. We'll also talk about the key drivers to the financials.

Looking at the production, our production increased from about 38,500 to close to 43,000 barrels of oil per day which is an 11% increase. There was a 33% increase in entitlement, so entitlement barrels went up largely because of the impact of the oil price and that is the way the fiscal terms of the Production Sharing Agreement (PSA) work giving us a higher entitlement of barrels when the oil price is low. So our entitlement increased from 54% of gross production in 2008 to about 65% in the first half of the year. Our revenue decreased by 29%, that was as a result of an increase in production as well as obviously the negative impact of falling oil prices, which fell from the average $108 per barrel last year and averaged about $50 realised price in 1H 2009.

Going to the income statement, our revenue for 2009 was down about 29%, which was as a result of sales of almost 5 million barrels, which was part of our entitlement, and there was an underlift movement of $15 million. This resulted in $263 million of revenue. Our barrels sold were 4.9 million barrels of which 90% were through Iran and about 10% through Baku in Azerbaijan. The realised price you can see is one of the key drivers to our income statement; our bottom line is quite sensitive to movements in the oil price.

Our cost of sale comprises mainly two components, one is the operating and production cost and the other is depletion. Our operating and production cost ranged between $4-5 a barrel in terms of working interest and we have been able to maintain the same range over the past few years and we expect the same cost structure to continue in the near future. 2008 was much lower, that was because of the impact of an overlift situation and as you would understand, the way the Production Sharing Agreement works, the operator is sometimes unable to lift his entitlement so there could be a situation of underlift or overlift and this is treated accordingly in our financial statements.

The depletion is close to $100 million, which is up by 62% because of two reasons, one is that our production has increased so the depletion is directly proportionate to the increase in production where we amortise the total field development cost over the remaining recoverable reserves of the company. They have grown because of the field development costs, we have reviewed the long term field development programme and as a result of information on the current wells and these development cost structures, we have updated the reserves as a result of an independent report by our external petroleum engineers.

The administrative expenses are remaining in line with last year and we don't have any hedges in place. We had zero cost collars in 2007 and 2008. Currently we don't have any hedges in place and hedging had an impact of $91 million last year, for which a provision was made, the ultimate cash effect was only about $30 million. Finance income is $17 million, which is higher as a result of a higher cash balance and also the average cash balance maintained today. We have been able to still get yields of between 3-6% over the year and our income tax expense is lower because of the lower profit as a result of the oil price. So overall our net profit is down about 37%.

Going to the cash flow statement, our opening cash and cash equivalents balance was $449 million, which is a part of our total cash deposits with maturity of greater than three months plus deposits with maturity of less than three month totalling about $875 million. Our cash flow from operations was $119 million and this is a result of cash from operations of about $200 million less tax payout of about $90 million this year. $17 million as we discussed is interest on deposits, $136 million is cash outflow on capital expenditure of $155 million this year, which is almost the same level as last year. We expect our capital expenditure to be weighted towards the second half of the year but obviously it probably falls short of our expectations due to delays in the front line projects for about three-six months.

Our increase in term deposits at $293 million is additional cash we've put aside in term deposits. Our closing balance of cash and cash equivalents is $156 million which represents deposits and cash with less than three months original maturity, so our total term deposits at the end of the period are around $876 million, which includes $104 million set aside for abandonment activities. It shows that we have been able to maintain our cash position going forward despite the capital expenditure we've had, so we've almost come back to original levels of December 2008.

Our balance sheet shows a strong position; we've assets close to a billion dollars. What you see, $832 million is net of depletion and depreciation. Our inventories and trade receivables are $142 million; the receivables have been collected after the year end. We hold a small amount of inventory of crude oil as well as spare part for our operations at Hazar.

Our cash and term deposits we have talked about, it's at the same level as December 2008. Next, we've got non-current liabilities. These are mainly deferred tax liabilities, which are a result of temporary timing differences between our tax base in Turkmenistan and our corporate tax base. Current liabilities of $210 million comprise of abandonment fund liabilities of $111 million and other current liabilities of capital expenditure and operations. That also includes current liability for taxes, so it shows a healthy balance sheet. We've got a lot of cash, which we currently hold in six-month deposits and these are held with banks of a minimum rating of A, in a mix of foreign banks as well as local banks in the UAE.

Our capital expenditure programme in the first half of 2009 was $155 million of which about $75 million was on drilling projects and about $80 million on infrastructure projects. The two wells were completed by the first half but we had some wells which were being drilled at that point in time and completed subsequent to the half year end, they were completed in July-August. One workover has performed and we had good results on that single workover. On the infrastructure projects we have the Lam B platform, which is currently being installed, upgrade of Lam 63 has been completed. The other major projects included phase 2 of the export facility and there were costs for the trunk line and the CPF phase 2 which are ongoing projects, so these costs are included in the infrastructure expenditure.

I'll hand back to Jaleel for the outlook for 2009.

**Dr Abdul Jaleel Al Khalifa**: Thank you. Where are we heading in the coming two or three years for Dragon Oil? Aside from the operations and the financial view, I just want to assure you that 2009 was a special year for Dragon Oil. We had been through some changes and the management within Dragon Oil and I can assure you today that in terms of people Dragon Oil has a very strong management team and this is essential as we go forward. We had been through contractual changes as well; that made things strong and solid and we think we are standing on a better foot right now than before.

On the outlook, we are going to complete eight wells in 2009 despite the changes in the drilling programme, despite the changes in the rig allocations. There will be a lot more in 2010 and 2011. Production growth might be below 15% by the end of this year but we'll do our best to meet the 15% or up to 15% within the coming two or three years as well.

We're going to try to ensure three or four time rigs are operational within Dragon Oil as well as a part-time rig which is Astra that comes every winter hopefully. We have a commitment for this year but this is negotiable for future years. As you all know part of the three full time rigs will be the platform based rig that we're currently tendering right now. We're going to start drilling in Lam B which is quite a good location to drill, in the Lam field which is going to start some time in Q4 of this year, as well as we are going to start talking with the Turkmen authorities on the gas pricing in Q3, Q4 and hopefully as we deliver gas to them early next year that will be the time when we start realising some value for the gas.

Again we anticipate that within the three years we expect to complete between 30-35 wells. This is obviously a growth on the eight wells that will be completed this year, so in future years you're talking about 12-14 wells every year. In terms of production growth we might be less than 15% this year but hopefully we'll make for it next year and the year after. In terms of capital expenditure, it's within three years on the infrastructure, we're talking about $700-800 million even though there could be a slippage of the trunk line and CPF phase 2 this year into next year but over the three years we're talking about the same commitment. We are not slowing down. This is a good time to negotiate good prices in this down market and we're getting some good deals on both the infrastructure and procurement of materials.

In terms of drilling, our capex continues to be the same because of the 30-35 wells commitment. On the gas development capex, we're talking about finishing the FEED study and then starting this gas treatment plant. We're putting about $200-250 million for the gas treatment plan.

This is where we are in Dragon Oil, quite an active year this year, quite challenging in terms of fixing the operation, building a strong management team, hoping that 2010 and 2011 will be much more fruitful than this year in terms of deliverables on the drilling side, production side as well as completion of projects. I want to thank you all for being with us this morning and I want to open the floor for Q&A.

**David Farrell, Evolution Securities**: Good morning, it's David Farrell from Evolution Securities. In your press release this morning you talk about acquisitions. Presumably we can't expect any whilst you're still in a bid situation, but say if you were to come out of the bid situation, could you say something about their relative size and location and whether or not they would be geared more towards exploration places?

**Dr Abdul Jaleel Al Khalifa**: Just to clarify one thing, we are not slowing down the acquisitions even though we are in an approach period; we are still looking at it. Nothing mature yet to bring to your attention but we have always looked at potentially promising prospective areas within our region, which are not frontier exploration. We are not looking at deep water either. Also we're looking at acquisitions of development prospects in the Middle East, North Africa and Central Asia. We are actively pursuing this.

**Taleh Musayev, Merrill Lynch**: Thanks for your presentation, three questions from me. First of all, gas monetisation. As I understand because of the strained relationship between Turkmenistan and Russia, Turkmenistan is no longer selling gas to Russia. In light of this in the medium and short term, do you think that there is demand for Dragon Oil's gas and if yes, who will be the main recipient of this gas, China, Iran or Russia? The second question is about the rig replacement for de-mobilised rig. We have already seen twice a delay in the procurement of this rig: what is the reason for that? The final question, I'm not sure whether you can answer the question but in-house when you assess the value of your assets, what's the long term oil price and discount rate you use? Thank you.

**Dr Abdul Jaleel Al Khalifa**: Sure. On the gas, all I can tell you is what our current plan is and we see very positive signs from our counterparts in the Turkmen Agency, they are interested in starting negotiating the gas contracts with us in Q3. That said, the way it is going to happen is that they had already got their system in place, the compressor station and the pipeline just close to our facility for us to deliver our gas to the system. Now it all depends on the negotiation of the gas contract where we get our money value for it at that delivery point or they will allow us to do a swap of our gas at the border with Iran or Russia or somewhere else, but from what I can tell you right now is that they are very receptive, they are indeed encouraging us to start negotiating this quite soon and there doesn't seem to be a delay because of these Russia-Turkmenistan gas issues so far. I'm talking as recent as three weeks ago, it's not like we're talking a long time ago. Talking about the rig replacement, we've tendered first time bidders on the list but the problem is that suggested mobilisation time is quite long, they wanted six months' mobilisation to move their rigs to Turkmenistan which to us was too long, so we had to tender again and I can tell you – I haven't seen yet the details of the bids but among the bidders this time there are providers who have rigs in place there, so I expect mobilisation will be much shorter and this is why we're counting on Q3, Q4 to start drilling in our fields, so this is why we had to re-tender. At times the cost is of essence but mobilisation is another important element that you have to consider. As far as oil price we're talking about $70 a barrel in the long term. Tarun?

**Tarun Ohri**: As far as entitlement barrels, we use the $70 oil price and that's consistent with what we had last year. For the purposes of financials we go through an impairment review every year. We use the discount rate of generally around 10%.

**Peter Hutton, NCB Stockbrokers**: Peter Hutton from NCB. Could you just give a little bit more flavour about the upward revision in the long-term development costs of the fields and specifically in the 1H reporting what impact that had, if there was an exceptional item on the DD&A? Second question, I've got about six but I'll only do three this time around actually, the second item is on the gas negotiations, you're talking about the commercial element but one of the other elements was the recognition whether it's dry gas or wet gas and whether there's been any more news as to whether the Turkmen authorities could physically accept the wet gas. Also could you give a little bit more flavour about the reasons for the delay in the projects for the trunkline and the central processing facilities, I think you mentioned a three-six months' delay but what are the reasons and what are the implications for that?

**Dr Abdul Jaleel Al Khalifa**: On the development costs, we work with Gaffney, Cline and Associates as our consultant on our reserve assessment and on the long-term development plan of the field. This year we had gone to Gaffney, Cline and had a good review of the development plan. We tried to be reasonable in our expectations and not overpromise to our shareholders. When you decide on the long-term development plan you consider how much you recover per well and based on that you decide on the total number of wells, and, therefore, you reflect that in the total number of platforms. So it all depends. If you, for example, assume you recover 5 million barrels per well then you come up with let's say 100 wells. If you assume you only recover 4 million barrels per well then you have to come to 140 or 120, it depends on the numbers. So indeed what's happened is that when we looked at how much we can recover per well, we've come to know that we need this number of wells and this number of platforms up to 2035 and this whole cost of wells and platforms had been reflected and cascaded down into field development costs, which then had to increase. Now we continue to optimise this plan as we go through and the intent is that with more technology, with more cost effective operations in the future we're hoping we can beat this and bring it down with time, but we opted to go with this approach so not to give promises and then we don't meet them, but I can assure you that this is a great focus of ours.

On the gas delivery, I can tell you that the Turkmen system will accept gas, this is good news for us because then we don't have to wait three years to realise the value of the gas. On the delays, this will have no impact on our oil production. The current system can accommodate our production growth for next year. Why is there a delay? Basically, it's a story we live with every day. We're working our best with the contractor to deliver on time but at times the contractor does not meet your expectations. At times he does not get a commitment from his subcontractors or the procurement of key items and materials does not come on time and take it as a matter of fact in the industry you always see a slippage of major projects for six months to one year. Indeed I just want to assure you that it has no impact on our oil production.

**Vugar Aliyev, Matrix Capital**: A couple of questions, the first two on gas. How much gas are you flaring at the moment? Second on gas, we know that Petronas was one of the first if not the first independent company that were trying to negotiate gas sales with the government. Do you know if they have finalised that contract? Are they being paid for their gas? The last question, this year you are trying to complete eight wells, up to 35 in the next three years. If you take the number 35, that would mean you need to drill 13-14 wells in the next two years, 2010 and 2011. Your track record last year I believe was that you drilled nine wells, the year before seven. What makes you confident that you can deliver 13-14 wells? Is it the number of rigs? Do you have the organisational capability to plan those wells? A bit of flavour on your target, thank you.

**Dr Abdul Jaleel Al Khalifa**: We're currently flaring about 100 million standard cubic feet (scf) per day. I can't really talk for Petronas, I cannot tell you whether they have completed or not completed because this is for them to comment on. In terms of drilling, as you could tell this year we had released one rig in March and then we had the Iran Khazar going for maintenance for two months, so we've almost drilled with less than a rig and a half for the period so far. In September-October we will have a third rig coming. It's going to be a good capacity rig hopefully. Then we're going to have the jack up Astra rig for six months starting later this year. All in all, I we think we can deliver between 12-14 wells in the coming two years. Now this is why I was careful to say between 30-35 wells but we're hoping we can meet our production targets. Any more questions?

**Peter Hutton, NCB Stockbrokers**: You mentioned in the results presentation that you are in negotiations with the Turkmen authorities over the possibility of a retrospective arrangement on tax after it went up from 20% to 25%, you've made no provisions. Can you just give some background on that? What's the basis of those negotiations? Also could I just double check on the ratio of the net entitlement to working interests, 65% in the first half? What's your guidance for the second half at your $70 per barrel?

**Dr Abdul Jaleel Al Khalifa**: Let's start with the second one first. I would expect it would be between 60-70%, because we expect the capex hopefully to increase in the second half of the year and even though the price of crude might be between $60-70, who knows, we can still be between 60-70% entitlement rate. On the tax negotiations, as you know our PSA started with 25% tax, then we were given a kind of leeway by the president about six years ago to come down to 20%. Last year in August they set the tax at 25%. Since then we had approached our counterparties in the tax authority and the Agency and I can tell you we're going to end up paying 25%. This could be a mix of tax plus other things, but the total will be 25%. The issue under negotiation is the time when we start paying the 25% rate. Is it January 2009? Is it June 2008 or is some time before then? This is up for negotiation and we're going to start this negotiation hopefully within a month's time, so I cannot pre-empt the result of the negotiation as of now. Our position is to pay effective January 2009 but of course for our counterparties in Turkmenistan, they might want that payment to be much ahead of January 2009. Maybe from June 2008 or maybe before then, we have to start face to face discussions and talk about it. Obviously the intent is to settle this one and when you talk about these issues with the Agency of Turkmenistan, you have to consider your long-term strategic relationship and you want to maintain this win-win situation with your counterparties because at the end of the day you want to win in the long-term and I can assure that our counterparties in the Agency are very receptive, they are nice to work with and they are reasonable in their expectations as well.

**Guy Marshall, Visor Capital**: Guy Marshall from Visor Capital. Perhaps I might ask a question about ENOC, the possible bid, I know your advisors will probably advise you to say very little but can you give us any guidance on the timescale, when you think there might be some closure on this one way or another?

**Dr Abdul Jaleel Al Khalifa**: I know Philip will answer this but all I can tell you is that we have an ongoing negotiation with them, discussion, and we cannot comment as of when and whether there will be a certain bid or not. We have to wait and see and I can assure you that once we get to know and once we are firm on what to tell the market we will come and let you know, all of you at the same time.

**Philip Wolfe, HSBC**: Basically the Company is in an offer period; discussions are ongoing so as soon as they conclude one way or another we'll let you all know at the same time.

**Dr Abdul Jaleel Al Khalifa**: We hope we can tell you more. Alright, if there's nothing more, thank you very much and we'll see you hopefully next time if not before. There's one online question here so we'll take it and then we'll finish.

**Gerry Hennigan, Goodbody Stockbrokers**: Good morning Jaleel. You mentioned in the statement with regard to the location of the Lam B platform, you seem to be reasonably confident that you can get good production rates from the wells in that platform. Is that a function of its location and if you can give me some indication and the size of the survey, give some indication as to where that will be located relative to the other platforms in the field?

**Dr Abdul Jaleel Al Khalifa**: Lam B is a little bit to the west of Lam 28 where we currently drill and our wells there make between 3,000-4,000 barrels, so we anticipate that Lam B will have the same prolific nature of wells and we plan to drill eight wells in Lam B and then also we plan to come back to it and add another four slots in the future, so if it did really meet our expectations which we hope it will, it will give us a good boost in our production in the future.

**Gerry Hennigan, Goodbody Stockbrokers**: Just on the capex front, you indicated that you're probably going to be shy of your expectations for this year in terms of total capex given that you spent $155 million in the first half, where do you think you'll be for the full year?

**Dr Abdul Jaleel Al Khalifa**: What I would say is for this year we will be close to between $400-500 million but then for the three years, 2009-11, I think we will see $700-800 million in total because the progress with the trunkline and the processing facility will accelerate next year so we'll end up paying a lot of money next year for those two projects which was supposed to be this year. Over the three years there's no change.

**Gerry Hennigan, Goodbody Stockbrokers**: Just finally in terms of diversification, what sort of opportunities are you seeing at the moment? Is there any change in terms of the opportunities that you're seeing given that oil prices have increased slightly over the last couple of months?

**Dr Abdul Jaleel Al Khalifa**: There're still a lot of opportunities in the market. As you could tell from the news there are quite aggressive people in the market that just jump at the high price, plus there's some risk potential in certain areas you have to consider when you move there, but I can tell you that there is still room for growth, there're still opportunities out there without mentioning specific countries but there's definitely a lot more in the Middle East and Central Asia that is available for potential acquisitions.

**Gerry Hennigan, Goodbody Stockbrokers**: Thanks very much.

**Dr Abdul Jaleel Al Khalifa**: Thank you sir. Thank you for your time.

**Operator**: That will conclude the conference call, thank you for your participation ladies and gentlemen.