Company: **Dragon Oil plc**
Presenters: **Dr Abdul Jaleel Al Khalifa, CEO**
Tarun Ohri, Director of Finance
Conference call: **2012 Interim Results**

Dr Abdul Jaleel Al Khalifa: Good morning to all of you and welcome to our Interim Statement. We finished the first half of the year with production growth of 10.7%, averaging 64,200 barrels of oil per day ("bopd") as compared to 58,000 in 2011. On the drilling front, we drilled 12 wells, which is 10 new wells plus 2 sidetracks, and we anticipate to finish the year at 16 wells, which is above our plans of 13 wells. On the sanding issue and the production, so far we managed to secure the position fairly well. Production is up in the 70,000 range. Sanding is under control. Facilities are running under normal operation. We're continuing our approach to install desanders on the platforms as well as sand screens on some of the completions to ensure better control of sand production in the future. But it's not a threat to our production, it's not a threat to our facilities and we're running operations as usual now.

On the diversification plans, the contract for Block 9 exploration in Iraq has been awarded to a consortium including Dragon Oil at 30% share there. We've initialled the contract with the Ministry and the other partners and it will be ratified at the Council of Ministers some time in the near future. We and other partners in this consortium are very eager to start the activities in the block and we're seeing a lot of support from the Iraqi side as well. On the Bargou exploration permit, we secured a rig there with the other partners to drill the well anywhere from December to March 2013. We're hoping for December to start but it all depends on potential rescheduling of the jack-up that is coming to our area.

We've had two appointments at the Board level where we have a new Board member who is very much seasoned in the oil services industry, as well as an exploration manager to handle the exploration activities that are incrementally increasing now at Dragon Oil.

We've started a $200 million share buyback scheme where so far we have done quite well. We've acquired about 16 million shares or so at a good share price and we're hoping this will continue until the completion within a month or two. The dividends have increased to 15 US cents per share for the first half of 2012, which is a very healthy sign of the strong balance sheet that Dragon Oil maintains, and it's also a good sign for our investors that we mean to return capital to shareholders but at the same time maintain a very strong balance sheet for a very active acquisition campaign that we hopefully can pursue in the future. We maintain a very active team looking at potential opportunities in Africa and Central Asia. We're hoping that things could develop in the second half of the year to share some good news with the market.

These are the major highlights. As guidance for the future, we maintain 10%-15% growth potential for the coming two-three years and we also maintain 100,000 bopd production targets for 2015. As far as contracts, rig facilities, it's progressing. There are some delays with some of the contracts; however, there is not a major delay that would threaten our production targets for the future and we also maintain flexibility to ensure that we have room to manoeuvre in case of delays here or there. This is all I have and I want to turn it over to you, so we'll be happy to answer any questions you have.

Caren Crowley, Davy Stockbrokers: Good morning, guys. Just a couple of questions if you don't mind. You spoke about acquisitions and maybe something happening a bit more in the second half of the year but I'm just wondering, can you comment on the market for assets at the moment? I mean, I would have thought capital markets are, well, quite poor, therefore if you're a buyer, you know, there're good opportunities in the asset market, but perhaps you can tell me a little bit more. Just on the location of the new platforms that you hope to build over the next few years, can you describe their location in terms of where they are, particularly in the Lam fields? Are they in a virgin reservoir or are there wells already in that location, which can tell you a little bit about the productivity of the reservoir in those locations? And I'm just wondering as well with regards to the sand issue that cropped up in Q2, I know you've implemented or installed a number of desanders on certain platforms and wells. How many more wells or platforms still – old wells and platforms –need to be upgraded with either a sand screen or filter? And I think that's about it, thanks.

Dr Abdul Jaleel Al Khalifa: Ok, thank you, Caren. On the acquisitions, there are opportunities available now. I can tell you, sometimes the seller has to, or he elects to go through a process and the process takes much longer than needed and makes it quite competitive in nature as well even in today's market. But I can say from what we see is that there are opportunities in Africa and Central Asia that we and many others are looking at and we're hoping that the second half of the year would be more, basically, would be more having of good news than the first half of the year, as we're currently going through many fronts in different areas at different stages.

On the platforms in Lam field, we have Lam D in Lam West area, which is quite a good area to drill in. It's just between Lam 28 and Lam C and Lam D. We have Lam E, F and G in the main Lam field. Those are locations that are not too far apart from existing wells and our average well there is anywhere from 1,500 to 2,500 bopd, so they are not virgin areas but at the same time they are not depleted areas either. So it's sort of an average. I just want to remind you that we have Zhdanov A and Zhdanov B platforms as well that are hopefully ready for drilling in the first half of 2013.

On the sand issue, I just want to assure everybody that when we first had it in April this year, we were quite alarmed and we thought it would take a dramatic trend but over the last two-three months, we have a much better understanding, much better control and indeed yes, we have choked down some of the wells to prevent additional sand production but facilities operation-wise are excellent, no impact, nothing since that time. Wells that are being choked down are incrementally being opened up a little bit with the new desanders coming in, which makes it more healthy, and at the same time, for the new facilities we're putting desanders anyway on the platform and for the new wells, we're putting sand screens whenever possible on our dual completions to make sure that we're taking extra cautious position as far as sanding is concerned. So in a nutshell, I think sand, yes, it had hurt our production for the first half of the year but it's, I would hope that it's pretty much behind us now.

Caren Crowley: Ok, thanks very much, Jaleel. Just I suppose one last question if I can just to Tarun. Regarding the operating cost then, did you expense the desanding operations in Q2 to the P&L by any chance?

Tarun Ohri: The desanders what we purchase are capital equipment, so these are capital equipment, and the sand screens go as a part of your drilling cost in the well, these are capital expenditure but, of course, there's a small amount of expenditure, which goes through the opex line but not significant with regard to sand control and maintenance issues.

Dr Abdul Jaleel Al Khalifa: Just as a matter of clarity, it may sound like it's too complicated, very expensive equipments but it's not you know. A desander that could handle 5,000-6,000 barrels of oil of production costs anywhere from US$0.5 million to maybe US$1 million at the highest, you know. So even if you were to put a desander on each platform, you're talking only about a US$1 million extra cost. For 10 platforms it's US$10 million, and up until now we have only had two desanders. So we wouldn't have to have it on each platform and the cost is not high.

Anish Kapadia, Tudor, Pickering, Holt: Good morning. My first question was with some of the drilling delays – rig delays – that we've seen, I was just wondering what that means in terms of the number of wells that you're planning for next year. The second question was just in terms of the average IP rate that you've seen on the wells this year, it seems like you've had an average IP rate of around 1,900 barrels of oil per day, which is less than your historical average that I think is up closer to 2,500 barrels of oil per day. Just wondering if there's any particular reason for those wells this year being less productive than we've seen in the past. And the final question, just going back to the acquisitions question, you know, it seems like you should have a very good feel of what's out there on the market at the moment, given you've been looking for three to four years. Just wondering, at some point if you don't get an acquisition done, have you got a point in mind where you make a substantial return of cash to shareholders?

Dr Abdul Jaleel Al Khalifa: Ok, great. So on the rig delays, it is an issue in the Caspian Sea. Rigs may not be as abundant, available as in other areas. But we've managed over the years to work around that in the sense that if you consider a snapshot of three-four years and you consider the production growth, you would see that yes, one year we're a bit less, one year a bit more but we managed to have a very definite historical growth, which is very impressive. So rig delays, yes, it might impact short term but it will not impact medium to long term. And our Caspian driller rig might come hopefully in the second half of this year before December or in December. It is a delay of what we had planned for before but this is a fact. It's a new jack-up. We're trying our best to finish it sooner but this is something that may not be doable before the end of the year.

On the production, I think the average over the past years is less than 2,500 bopd. Yes, we had wells that produced that high but we had wells that averaged anywhere from 1,000 to 3,000 bopd. So production-wise this year we've averaged 1,900 bopd or so. We had wells that made high-rate flows, wells that made lower rates, and it's anticipated as we drill more wells in this field, we're going to find wells that would be anywhere from 1,000 to 2,000 barrels of oil per day, and there could be wells in Lam D areas, which could be 3,000 to 4,000 bops. What we had put in our plans, growth plans is a conservative forecast for well production and quite reasonable decline rates that would take care of these ups and downs in the production forecast, but you are quite right. When we drill wells in new areas, we anticipate to see higher or lower rates. Therefore, the production average of the new wells is not alarming; it's quite aligned with our forecast.

On the acquisition fronts, I think I can assure you that we're currently looking at quite a few assets that are potentially available for acquisitions. So we are not yet at a point where we have lost complete hope and we have to consider what we do with the cash, and I don't see ourselves getting into that position. I think there are plenty of opportunities and we're gauging the market very well and time will come that we come back to you and prove that we did make the right acquisitions at the right time.

Anish Kapadia, TPH: Ok, thank you. Could I just have, just to follow up on the rigs issue, how many wells would you expect to be able to drill next year with your current rig capacity?

Dr Abdul Jaleel Al Khalifa: I would say anywhere from 10 to 15 wells.

Kingsley Jibunoh, FirstEnergy: Good morning, gentlemen. My question is concerning Iraq. When will you be in a position to let us know maybe details of what you intend to do, your exploration spend in the near term for your entry into Iraq? Thank you.

Dr Abdul Jaleel Al Khalifa: When we get the contract signed, hopefully in the third quarter of this year, and when we finalise our exploration plan, we will definitely come back to the market with our work plan commitments and potentially a schedule of activities that could happen after that. So we would see that the coming two-three years would be very active in Iraq but it would be very rewarding as well. I can say one thing that the subsurface risk is very low in Block 9 from all the scouting results we have from neighbouring areas. So that is quite good news. As far as timing of the activity, our partners are already in the country for more than two years now or so, and therefore they have a good understanding of the landscape and this can give us a hand that things will go fast hopefully.

Kingsley Jibunoh: Ok, just a little bit more into maybe your entry into Iraq, is it possible when you maybe find something in the future to book reserves with the contract that you have?

Dr Abdul Jaleel Al Khalifa: Yes, I think we can because we have a share in the contract that could be translated into barrels of reserves.

Tanya Kalachova, Otkritie: I have a question on Tunisian assets. You already said that you are going to drill the third exploration well some time around the third quarter 2013. Do you have any view on how much you are going to spend for capex there, assuming youfind something? So it is hundreds of millions, is it half a billion, and when that production can start?

Dr Abdul Jaleel Al Khalifa: Ok, so the drilling of this exploration well would be in the timeframe from December 2012 to March 2013. This is the drilling of the exploration well. If it's a discovery, which we hope so, then we take over as an operator to take care of the development and it's 50-60 metre shallow water offshore where you need to put a production platform, drill wells, put a pipeline and a processing facility onshore. It's not half a billion; it's much less than that. It's in the range of a few hundred million dollars. And remember, we are getting there as 55%. So our part of that commitment will be in the range of $100-$200 million. We haven't yet firmed up the numbers but as a preliminary number I would say anywhere up to $200 million is reasonable for our part of the development of Tunisia.

Gerry Hennigan, Goodbody: Jaleel, good morning. Just going back to your question there with regard to the number of wells you think you can do next year ,10 to 15, do you think if you do fewer wells with the water injection programme, it'll enable you to maintain your production rate in the 10%-15% range next year if there is a delay in terms of rigs? And maybe if you could talk a little bit just in terms of the history of the sand issue, did it just transpire in Q2 of this year? Is it a function of drilling in new areas or a function of higher production?

Dr Abdul Jaleel Al Khalifa: Thank you, Gerry. It's fair to say that if water injection is successfully implemented, it would help maintain production in those platforms and therefore arrest declines. I don't see immediate impact of water injection on production in the same year; it would take some time, and until it's implemented on a wider scale. So the impact on the production might happen in year 2014 onwards.

We will do our best with the available rig capacity and as we did this year, try to make sure that we drill more wells to meet our production targets. But we have to face reality at times when rigs are delayed or contractors did not deliver platforms on time; it's a fact of life. So we have to adjust as much as possible our drilling plans accordingly.

On the sand history, I just want to bring to your attention the fact that if you're producing from a sand reservoir, there is definitely sand particles that come from the sand face into the production stream. Now there are various ways of controlling how much sand comes through and it all depends what the quality of the sand formation is. There are sands, which are fragile, friable, that can easily flow to the well bore and make it to the facility. There is at times very consolidated sand that does not flow easily to the well bore. In our sections, where we have various sand-shale sequences anywhere from 1,500 down to 4,000 metres, you could see all kind of sands. There is no specific change in our production in in first half of this year that had immediately started these sanding issues. So there was sand production in the past, which is controllable and we do have desanding operation in our production facility where we basically have washed the bottom of the facility once a day or once every other day to make sure all sand particles that accumulate at the bottom of the vessel are washed out to the bed and then handled that way. We also started since last year putting sand screens on all the new wells, anticipating that we might need it in the future, and we were right, you know. It has helped us a lot now coming back to our normal production and making sure that there isn't any further degradation of our production facilities.

So yes, there is history behind it but at a very low scale. We did not go to new areas where we invited a lot of sand, and I think we've learned from the lessons that we have to be extremely careful on our choking, on our choke inspections, on the choke setting of the wells. We have learned that it is always nice to put a desander at let's say a million-dollar cost or less in each platform to make sure that you could at least control the sand on the platform before you send it to the pipeline and to the processing facility. All in all, I think it's a very excellent lesson for us. It has cost us a little bit of production in the first half of the year but good news is that we're back to normal operation. Our production is up in the 70,000 and it's behind us.

Gerry Hennigan: Ok, and a follow-on if I can. When do you see the current programme, it is an ongoing programme or when do you see it being completed, just this the installation of the sand filters? And maybe if you can comment in terms of your distribution. I know all your oil is currently being marketed through Baku. Will that be the case for the foreseeable future?

Dr Abdul Jaleel Al Khalifa: On the future installations, all the new wells will be equipped with sand screens as part of the drilling campaign because it's installed as part of the completion. At least in one of the strings, either short or long string. As far as desanders are concerned, it takes time to mobilise them and install them. We had the first one installed on Lam 28 this week and we have two coming on line; hopefully within a month's time they will be installed on two other platforms. We will make sure that we request desanders as needed on other platforms but it's not a major increase in number of desanders.

On the distribution, to be honest, we have to decide within September/October timeframe and at this stage; it's a bit premature to tell you where we're going to go to.

Tanya Kalachova, Otkritie: Yes, I have a quick question on the gas plant. Is there any progress? Do you expect the tender to take place in the near future or is it slipping into the next year?

Dr Abdul Jaleel Al Khalifa: Just to give you some background on what we did, we had original feed and then we looked at the cost of that Front End Engineering Design study and we have decided that we'll optimise it in a way to make it less costly for us. This optimisation will be completed within a month's time and the tender is going to go ahead in October and hopefully it will be awarded within the first half of 2013.

Tanya Kalachova: So you mean you can start construction in the first half 2013?

Dr Abdul Jaleel Al Khalifa: No, no, we will award the contracts in the first half of 2013 and it's a two-year project so it will be hopefully completed by first half of 2015.

Sandip Bhatt, Damac Invest: Good morning. Thank you for the call. I joined a bit late but if you could elaborate more about your Iraq plan and I see a great potential there. So could you give us a bit more colour as to what your strategy is there and how do you see it developing over the medium to longer term?

Dr Abdul Jaleel Al Khalifa: We have not had a full detailed plan as what to do but from all indications, it's a great prospective block with a lot of oil resources that has a very minimal exploration risk from the data that we had collected around the block, without specific details. The plan is to move with our two partners at expedited basis once the contract is formally ratified by the Council of Ministers in Iraq. Part of the plan was to de-mine and then drill a few wells and based on the results of those wells, a development plan has to be approved by the operators and the Oil Ministry in Iraq, the South Oil Company being the representative of the Oil Ministry in the South. The development will take a fast pace, especially that our partners are already in the country. They have offices on the ground and they are operating before this time.

Sandip Bhatt: And it's going to be similar to the service contracts rather than the Northern Iraq, Erbil, the Kurdistan regime where you get a profit share; rather here you get fees per barrel?

Dr Abdul Jaleel Al Khalifa: So it's one of the South contracts where we get $6.24 a barrel and it might seem modest but considering the volumetric and lesser exploration risk, it's quite significant.

Sandip Bhatt: Ok, ok and do you see any kind of convergence between the the South and the Northern model?

Dr Abdul Jaleel Al Khalifa: I don't honestly know and I can't – I can't judge on that one. It's up to them to decide.

I want to thank all of you who are with us on the call. I think the first half of the year was quite good, results are excellent financially; the crude oil price was holding at very high level. Our production is back to the 70,000 bopd range, this is quite positive. Our dividends of 15 US cents for the first half of the year is quite good. It is another gesture to our shareholders that we care about returning capital to them, and I want to assure our shareholders as well of our continuous, constant endeavour to diversify our portfolio in Africa, Central Asia and MENA region. And with that, I want to close and I want to thank you all for being part of this.