Company: **Dragon Oil plc**
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Dr Abdul Jaleel Al Khalifa: Good morning all of you and welcome to Dragon Oil's Interim Results and I'd like to thank you all for being part of this conference call. I will go briefly over the presentation of the mid-year results and then we'll open the floor to Q&A if you don't mind. Going over to slide 5 in the presentation, on the key highlights the average production for the first half of the year is 73,440 barrels of oil a day as compared to 73,600 bopd in the first half of 2013.

I just want to raise this point here and draw your attention to the fact that drilling is back-loaded to the second half of this year due to late start-up of drilling by some rigs, however, we see some increased production as we go through. In June, for example, we have averaged about 76,100 barrels a day and today we are producing about 81,000 barrels, so we feel comfortable that we are going to reach our target anywhere from 87,000 to 90,000 bopd as an exit rate this year. We drilled four wells, including two sidetracks in the first half. Three more wells have been completed so far in this quarter and more wells to be completed in the second-fourth quarter, so we finish this year with around 14-16 new wells. On the gross production for June, it is 76,000 bopd, in August it's 81,300 barrels so far.

Revenues are 11% higher than last year with a realised price of US$93 a barrel. That's at about a 15% discount to Brent. Capex has drastically increased this year compared to last year and right now at about US$330 million, we hope we can finish the year anywhere from US$500mn to US$600mn in total capex.

On the diversification we signed the contract for Block 9 East Zeit Bay in Gulf of Suez in Cairo. It's 100% operatorship by Dragon Oil. In the Philippines, we finished the drilling of an exploration well there, unfortunately, the well is a dry well and therefore it's been abandoned. The exploration well in Iraq so far has reached its first target. We are coring there and coring has shown some significant positive results. We have not tested or logged the section yet. We hopefully drill the full section of the first target, test and run logs before we set a casing and we drill it to the second target.

The dividend of the first half is 20 US cents, which is 33% higher than last year's dividend.

On the gross production, which is the next slide, slide 7, the July average is 78,125 bopd and August production for this year so far is 81,300 barrels per day. On the drilling results we finished seven wells, including two appraisal wells and two side-tracks since the beginning of the year. The appraisal wells are one in the Lam area and one in the Zhdanov field. Let me just tell you that in Zhdanov this well has been tested in only part of the section due to drilling difficulties and it does not reflect the full potential of Zhdanov. Indeed we had wells in the past in the Zhdanov field that made 1,000 barrels and for the production period, some of those wells, at least one of them made more than a million barrels. On Lam wells make 1,000 barrels plus. On Lam B/148A it's 1,300 bopd; and in Lam A both wells made close to 2,000 barrels. This table is showing 1,700 bopd and 1,900 bopd, two positive wells in the Lam A area.

In 2014, plans for drilling are: eight wells to be completed by Elima; four wells by Neptune. We are going to spud hopefully in the fourth quarter 2014 by the Caspian Driller and three wells are to be completed by Land Rig 1 and one or two wells by Land Rig 2 in Zhdanov A. The total is 16 wells.

Going to secondary recovery, water injection so far is doing very well in Lam 75 area. Wells equipped with jet pumps are doing very well in Lam 13 and we plan to install another 14 jet jumps in the coming three quarters, indeed two of them will be installed this month in Lam 13 followed by a few more in Lam 10 and the remaining will come next year. We hope that this will increase production towards the target of this year.

On water injection as I said, the pilot at Lam 75 is ongoing, 3,500 barrels of water per day continuous injection. We plan to tender our water injection for both Lam 13 and Lam 10 with installation of systems to take place in 2015. After that we plan a wider scale implementation of water injection programmes.

On infrastructure, Zhdanov A platform has been installed and ready for spudding. The rig is already mounted there and hopefully we will spud in the coming two weeks. Lam F platform is being installed in water as we speak. Lam E engineering and design work is ongoing right now and basically fabrication will start soon after. We perform strengthening of a number of platforms. The tank farm project is ongoing, so far major progress has been made and we expect the first phase to finish around April next year. Decommissioning activities ("P&A") are ongoing as well.

On marketing of crude oil so far this year we realised about US$93 a barrel at a 15% discount to print. This is on the back of a renegotiated contract with Socar Trading. Before the end of this year we plan to finalise the contract for 2015 and we hope that in that process we will examine all options available north and west as well.

On gas monetisation the tenders for the Gas Treatment Plant (GTP) is still ongoing, we did not finalise it yet. We are still talking about value and terms and conditions, but we are still in line with the state agency on this; the contract is hopefully going to be awarded before the end of this year and it will take about 2-3 years so we expect it to be operational in 2017.

On diversification, just briefly as I said we are drilling the well on Block 9. De-mining is ongoing and after that it will be followed with seismic. Sanduqli, Mazar-i-Sharif in Afghanistan, we already awarded the gravity and aeromagnetic study contract and after that we're going to award a 2D seismic contract.

On Block 19 in Egypt the contract was signed, the office is already inaugurated and we've started working with the state authorities there to start work.

In Tunisia we and Cooper and Jacka are applying for a one-year extension and will bring a jack-up rig to the country and among other activities of the consortium, for us it will be drilling a side-track of the plugged well, which could happen around mid-2015. On Service Contract 63 in the Philippines: the results were not encouraging.

Now I'll turn it over to Tarun to talk about financial results.

Tarun Ohri: Good morning everybody and thank you Jaleel. I will take you through the financial highlights. The first one is the revenue was US$547 million and that was on the back of strong Brent prices, which remained at around US$110 a barrel for the last few years. The oil price has been trending down but we hope it will conform to the levels we've seen in the last couple of years. The realised price was US$93 after the discount of about 15% and also we had improved entitlement in the first half of 2014. We expect the entitlement to remain at about 50% plus for the full year 2014. If you remember last year the entitlement was lower as a result of high oil prices and lower capital expenditure spend.

The net profit was US$289mn. The interim dividend we declared was 20 US cents, which is a 33% increase over the interim dividend of last year and this translates to about 4% yield on current stock prices, so it's a healthy return for the shareholders. The cash balance stays at US$1.9 billion and that is after the dividend payment. The level of dividends reflects the board's intention to pay dividend taking into account performance of the company, the capital requirements of the business and so forth. So in short the board retains flexibility with the intention to grow modestly dividend in the future.

Turning to the next slide, number 19, we look at the income statement. Last year in the first half we made US$241 million of profit. This year we've increased revenue due to an increase in the volume of crude oil sold by 4% as a result of higher entitlement and also an 8% increase in the crude oil price. The opex if you see it's lower by US$63 million and as we have stated our gross profit is recognised on an entitlement basis. So there are changes in the revenue and the operating cost depending on lifting positions, so as of June we were in the underlift position of 600,000 barrels and that lowers operating costs but we have been able to maintain our operating cost at about less than US$4.50 per barrel for the first half of the year and our gross profit for entitlement barrels, if we look at 2014 and compared to 2013, it's at the same levels of about US$60 a barrel.

Our depletion rate has increased because of higher entitlement and this is based on a three-year forward price and a US$90 oil price long term. Our administrative costs have remained almost at the same level with a marginal increase. We have impaired our assets in the Philippines by US$18 million. An impairment due for the balance of the year and the total impairment would be around US$25 million. Our tax for the year is higher because of higher revenues and higher profits, so we've ended the first half of the year with US$289 million in net profit.

Going through the next slide, number 20 which is the cash flow, we started the year with US$1.9 billion. We are almost at the same level, marginally lower at the end of the first half of the year at US$1.859 billion and this is as a result of cash flow from operations, which has been very strong. We expect the cash flow for the year to be around the US$800 million level and the yield on deposits has been lower, it's about 0.6%, which is reflective of the low interest rate environment. Our average cash balance is at about US$1.8 billlion through this period. We spent on plant and equipment additions about US$24 million. We've had a final dividend of about US$88 million we just paid off at the beginning of the year; and A&D increase which has been set aside of over US$64 million during the first half of the year. Our total A&D balance currently stands at about US$630 million. This is to cover our obligations under the PSA.

Slide number 21 is capital expenditure in 1H 2014. In the first half of the year we spent about US$330 million on capital expenditure and that's almost equally split between drilling and infrastructure. So we drilled four wells in 1H and we completed three wells so far in 3Q 2014. The main expenditure was on the tanks as well as relocation of Lam F platform, structural upgrades, which have been done in various parts of the field to give us flexibility to drill in the second half of the year and in 2015 and we've also awarded the Lam E project, which is currently underway and various stages of design and construction have been initiated.

So with that I'll hand it back to Dr Jaleel for the outlook for the year.

Dr Abdul Jaleel Al Khalifa: Thank you Tarun. For the outlook as I told you before, production growth in 2014 hopefully will be 5-10%. We feel comfortable that we will exit the year at anywhere from 87,000 bopd to 90,000 bopd and that will give us a good position to reach the 100,000 exit rate of 2015. As you know next year we'll have 4-5 rigs operational in our area. Water injection will be started in Lam 10 and Lam 13 areas and jet pumps will be installed in 14 more wells in addition to the two existing wells. Drilling, we're going to hopefully drill a total of 14-16 wells in 2014 using two jack-ups and two land drills. The Caspian Driller, it will be hopefully spudding in the second half of this year towards the fourth quarter. The work is ongoing with CIMC Raffles to ensure its arrival and some of direct inspection is ongoing right now.

On the infrastructure Lam E engineering work is ongoing, hopefully fabrication will start soon. Lam F installation has started. It will be ready for drilling in the fourth quarter of this year and this is a land rig platform, which has eight slots for a land rig and eight slots for a jack-up rig. The GTP contract award hopefully will be towards the end of this year and it will be operational in 2017 and we hope we can award the contract for the 30-inch trunk line in the second half of this year. It's been already tendered. We're currently going through the technical evaluation. On the Central Processing Facility expansion, it is being tendered now.

On the diversification we are hopefully testing the first target in Iraq within this quarter and hoping that we can test the entire well, first and second targets, before the end of this year. Once we finish de-mining in Iraq we will start the seismic acquisition. The airborne gravity and magnetics will start soon in Afghanistan and it will be followed by the 2D seismic acquisition; and the side-track in Tunisia hopefully in 2015.

That's all we have for today's presentation. Now I would like to open the floor for Q&A if you don't mind.

Ritesh Gaggar, GMP: Just one question on your rig strategy in 2015, do you expect to retain some of the rigs for which the contract is expiring some time in 2015 such as Elima or Neptune? If you can provide some details on that and the number of wells that we can expect in 2015, that will be helpful. Thank you.

Dr Abdul Jaleel Al Khalifa: On Elima we have one year optional extension that we can exercise at our call, plus we can hopefully extend it further in the future, so that will be done. On Neptune, as you know it's supposed to stay until we get Mercury and the total contract, three years between Neptune and Mercury. So the plan right now with EDC is that hopefully they would leave Neptune operational until Mercury comes in place. As far as the total number of wells for 2015, it will be anywhere from 20 wells to a higher number, so it's incremental to what we have this year.

Caren Crowley, Davy: Just a couple of quick questions hopefully. With respect to Land Rig 2, if I'm not mistaken that arrived in Q1 of this year but you're only starting to drill a well with this rig in August and I'm just wondering what caused that delay, if you could explain a little bit about that please, that would be helpful. In terms of the rigs that are due to arrive in the second half of the year, is there another land rig that is due to arrive? Finally just on the production numbers, you talked about 81,000 barrels of oil per day in August and this compares very well with what you averaged in H1 of this year and I'm just wondering, is the difference really just the timing of the development wells, when they were completed or is there something else there in the mix that accounts for that large difference between production in August and production that was the average number in the first half of the year? Thank you.

Dr Abdul Jaleel Al Khalifa: Thank you. On Land Rig 2 you are right, Zhdanov A was ready and we were expecting this land rig to come towards the end of last year and to start drilling this year, in the early part of this year. Unfortunately, the rig "came through a hurricane" in the sense that it was shipped from China and so on and they lost some equipment and at the time it arrived to Istanbul, Turkey, the supplier had to reassemble part of it, check what was missing and ask for the remaining parts to come. We got it in place in around April-May in our area. By the time it was assembled at a master point onshore, we ensured everything was in place, dismantled it and then loaded it on vessels to rig up on the platform, it has taken us some time. Normally it takes a two months' cycle from the time it reaches the master point to the time you drill the well. It's taking a bit longer but the good news is that we are almost there and in a week's or 10 days' time hopefully we'll spud. So this is the story of this land rig.

On the third land rig to drill from Lam F platform, which should be ready for receiving a rig around the end of this year, you are right that that land rig could either be an extension of a contract for one of the existing land rigs or a new land rig. So one option is to see the contract for one of the land rigs, which is expiring this year, maybe continue with us for another two years or so, but that is awaiting an approval from state agency and so on.

As far as production we have averaged this year around 73,440 bopd. We have added a few wells in the first half – that was enough to sustain the production and this is why we averaged almost the same rate we started the year with. Now we've added two more wells in Lam A, between both of them we added about 4,000 barrels give or take; plus we have done some choke optimisation, we have added perforations in some existing wells and this is why the rate has come to 81,000 bopd. From now to year end we are going to drill at least 5-6 wells in the good areas of Lam, plus some other wells in Zhdanov and other areas, plus optimisation, so that's why we feel comfortable hopefully that year end target is reachable. Thank you.

Robin Haworth, Oriel Securities: Just a question about Zhdanov. I understand that there are two further wells to be drilled in the field this year. First of all is that correct? Secondly, if the remaining two wells were to have disappointing flow rates, what proportion of the approximately 15% of field reserves would be negatively affected by that? Thanks.

Dr Abdul Jaleel Al Khalifa: Thank you. You are right, drilling on Zhdanov A will continue this year with a land rig. We also plan to bring in potentially a jack-up rig next year to drill more wells in Zhdanov. The well that we drilled this year is not totally disappointing. If we tested the full section of Zhdanov we may be expecting around 1,000 barrels of oil plus equivalent volume of water, so using ESP or jet pumps you can still do 1,000 barrels of oil per well in Zhdanov, which is not bad you know. I mentioned an example of another well, which was making 1,000 barrels plus in Zhdanov, so there are historical data that Zhdanov is doable. With new drilling technics, new completions, with ESPs and so on we think we can make it happen. If worse comes to worst, the impact will not take the whole field out. It could be certain areas, which may be carved out but that's not the case now. We still have to do more delineation, more evaluation of old historical wells. Remember we have old wells in Zhdanov that are due for P&A. We are running logs in those ones and we are finding some potential, so we are going back to them, adding perforations and trying to make producers out of existing wells in Zhdanov as well.

Gerry Hennigan, Goodbody: A question with regard to the current strength of current production, Jaleel, has there been some incremental benefit from the artificial lift or the water injection year-to-date or when will we get the full benefit of that? Is that more likely to kick in in 2015? On the acquisition front you've obviously been trying to acquire for quite a period of time and this is an idea more geared towards acquiring exploration licences rather than acquiring assets per se. Where areyou with regard to the divestment programme specifically with regard to acquisitions?

Dr Abdul Jaleel Al Khalifa: Sure. To be honest until now we did not yet see the benefit of water injection because of the limited scale we had. We have seen the benefit of jet pumps once we started that, so in two weeks' time we're going to see the benefit of jet pumps on Lam 13 because they will be installed in about two weeks' time. Before year end we'll see the benefit of jet pumps in Lam-10 and so on. The full benefit of water injection, it will take us until year end 2015 to see that and again it will be limited because we have limited scale of water injection application, but I hope that with jet pumps we are going to see the effect very soon this year and hopefully when we install the rest of them next year. The same applies to ESPs. We plan to install two ESPs next year and then followed by potentially another eight ESPs in the year after.

As far as acquisitions, yes, we've seen success in exploration diversification but honestly the main target that we're looking at is development acquisitions besides exploration and in the first half of this year we were extremely active in this area. We've looked at certain targets. We've done a full cycle analysis of some of them. We are actively pursuing other targets and we are doing a full cycle analysis on them now. If I compare what we do now as compared to last year it's much more comprehensive. Unfortunately, we did not do any final thing for the first half of the year. Let's hope the second half is better than the first half, but I reiterate our position that we are looking primarily at development acquisitions. We are doing exploration acquisitions from time to time if the opportunity is good.

Anish Kapadia, TPH:Good morning, I've got a few questions. The first one is: is one of the reasons that you haven't returned the cash to shareholders or spent the cash on your balance sheet that your major shareholder is the Abu Dhabi government, which also has got a vested interest in both Dragon Oil and the banks that hold the cash, so they're happy for the cash to sit in Abu Dhabi and support the economy. I was wondering along those lines is there not a conflict of interest in this respect between the majority shareholder that benefits from the cash and the minority shareholders that don't.

The other questions were again justifying the cash. I'm just wondering from a returns perspective how you justify holding over US$1 billion of cash on the balance sheet for five years earning virtually no interest versus either returning the cash to shareholders or lowering your return target to even 5%, which would be significantly better than what you're getting in the bank accounts at the moment? Just the final one is from a scale perspective, I'm just struggling to see why you need to hold again so much cash on your balance sheet when over the last five years you've struggled to even deploy US$100 million, let alone spending probably the billions of dollars that your balance sheet can justify? I'm just thinking in terms of being able to execute such a large transaction? Thank you.

Dr Abdul Jaleel Al Khalifa: A very important choice. I just want to clarify a few things here. The majority shareholder of Dragon Oil is ENOC and ENOC is owned by the Government of Dubai. Our money is being spread around 14 banks, eight of them if not more are international banks where none of the governments are a shareholder. A few are in local banks but those are not for the majority of the cash.

I just want to reassure you and others that the decision on acquisition or returning capital remains within the board of Dragon Oil with no influence whatsoever from majority shareholders. Now why do we have to keep this much money while making less yield? True, very valid point but let me just put you in my position and say we're looking at targets that go in value to US$1 billion plus with potential development plans that follow, which can be around US$300-500 million. If that is the case and if you're looking at two or three of them, you need US$1.5 billion, US$1.6 billion to do that.

Iraq, I cannot tell you we surely need US$300 million for development there but I am quite comfortable that so far results are encouraging and we need US$300 plus to develop Iraq. Exploration, we are spending US$100 million on exploration on an annual basis. You are right, one can say you can return capital to shareholders and go finance some of these operations from outside and that's also on the agenda of our board and we are not ruling out the fact that we can do a share buyback as we did in the past. We can return capital through higher dividends or one-off dividends, all are on the board's agendas but rest assured that there is no influence on the board or any conflict of interest that we go through when we decide this. I hope one day when we mature our acquisition targets and campaign towards acquiring significant assets of value then it will be quite clear to all of you - you don't see the details of what we do - that we're really wrestling with a very debatable issue, whether we retain cash now or we keep it and do the acquisition. It's not an easy thing to answer.

Dr Abdul Jaleel Al Khalifa: If none I want to thank you all for being with us today. I hope we can bring better results by year end and we are comfortable meeting our targets and I want to thank you on behalf of our management and our board and hoping that we can all have a good conference call or a face-to-face discussion in the near future. Thank you.