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Transcription for Dana Gas

Q2 2013 Results Investor Call

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Corporate Participants

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Presentation

Operator
Ladies and gentlemen, welcome to the Dana Gas Second Quarter 2013 Investor Relations Conference Call. I would like now to hand over to Robinder Singh, Investor Relations Director for Dana Gas. Sir, you may begin.

Robinder Singh
Good afternoon, ladies and gentlemen, and thank you for attending the call. We are reporting here the second quarter performance for the year 2013. Together with me on the call are Patrick Allman-Ward, our CEO; I have Leonardo, who is our Business Development Manager, and Azfar, responsible for Financial Control. We will take you through the presentation deck first and then we will subsequently open up the call for Q&A.

With that, I will hand over to you, Patrick, to take us through the first couple of slides – over to you.

Dr Patrick Allman-Ward
Thank you very much, Robinder. Good afternoon, everybody, welcome to the call.

If I go to the first slide, which is the performance highlights for the quarter, second quarter 2013, versus the same quarter last year and begin with production, we have managed to have a 5% increase on production for the quarter, so our production for the quarter is 61,700 BOEPD. Most of that production increase came from Egypt, where we had a 12% uptick to 34,700 BOEPD, as a result of tying in discoveries that had previously been made. That was partially offset by lower production in Kurdistan to 27,000, which is a result of the lack of LPG production resulting from the incident that took place in June last year.

As we had previously announced, in Egypt we have been successful in securing Block 6 as part of the last EGAS licensing reward and we expect that ratification for those licensing awards will take place in the second half of this year despite the on-going situation in Egypt.

With regards to financials, our second quarter profit after tax was lower at $27 million and this was largely a result of weaker hydrocarbon prices and the lower production of LPG, particularly in the KRG. We also had to take a one-off period charge of $7 million for oil field services in Kurdistan.

Collections in the second quarter were 44 million, as opposed to 86 million in the equivalent quarter last year, and that is, of course, a decrease from the situation that we had in the first quarter. However, this decrease is largely a result of under-recovery from Egypt, but we are confident that with the recent announcement of financial support to Egypt in the form of $12 billion of aid and deposits, together with the Government's stated aim that they want to increase gas production in the country, that this will be a positive combination and will help in trying to resolve the outstanding receivables situation and encouraging investment in the country.

If I pass to a comparison of the performance for the first half of the year 2013 versus the equivalent period last year, I'd like to emphasise that we continue to put a lot of emphasis and importance on our health, safety, security, and environmental standards across the Group. We are putting strong risk-based procedures in place and we are continuing to manage the HSSE aspects of our business to as low as reasonably practical standards, and the consequence of this is that we have shown, and can have demonstrated, a significant improvement in our HSSE metrics for the first half of the year and more details of that you will be able to find in the backup section.

With regards to production over the first half, production of 61,500 was marginally higher than the equivalent period last year; increases in Egypt of 4% were slightly offset by production decreases in Kurdistan for the same reason that I mentioned before, which is the lack of LPG production. However, it's good to note that our LPG facilities have been rebuilt in Kurdistan and the capacity is available as from July of this year.

We also had a discovery in Egypt with the Begonia-1 well, an exploration well, with the 3P reserve volumes currently estimated at around 15 BCF.

With respect to our financial position, our profit after tax for the first half was $93 million, representing a decline of 11% on a year-by-year basis, again largely impacted by that lack of LPG production from Kurdistan. We collected $116 million in the first half and, as I've mentioned previously, the collections in Egypt have been negatively impacted largely by the deteriorating macroeconomic situation in the country in the first half. Collections in Kurdistan by contrast have stayed on track and in line with expectations. We also have a stronger balance sheet for the period with a cash balance of $216 million, as compared to $164 million up to June 2012.

With that, I'd like to pass the word to Azfar, who will take you through the financial performance in slightly more detail.

Azfar Aboobakar
Thank you, Patrick. Good afternoon, everyone. I will now review with you our financial results for the second quarter and first half of 2013. I will also be referring to the slides in the web presentation.

As announced earlier, Dana Gas reported a quarterly net profit of $27 million in quarter two of 2013 and accumulative profit of $93 million in the first half of 2013.

I will now take you through the details of our quarterly and half yearly results. Let us first go to slide eight to review a summary of our financial results for the second quarter of 2013. Gross revenue in Q2 was $144 million, which was lower by 5% compared to the same period last year. Despite an increase in production, there was a slight decline of $7 million in our revenues due to lower hydrocarbon prices. Higher production in Egypt contributed $11 million to gross revenues in the quarter and helped compensate the loss of revenue from suspended LPG production in Kurdistan, as mentioned by Patrick earlier. Our LPG production capacity of 900 MT has been restored in July and hydrocarbon prices have since recovered.

Net profit for the quarter at $27 million was lower by 45% compared to $49 million in quarter two of 2012, and this was mainly due to the lower revenue and higher cost of sales. In cost of sales, we have a one-off prior period charge of $7 million relating to oil field services in Kurdistan and this was for the period from August 2010 to June 2013.

Let us now move to slide nine to review a summary of our financial results for the first half of 2013. Gross revenue in the first half was at $296 million and it was lower by 13% compared to the $342 million we had in the same period last year. The decline in revenue, again, was mainly due to the suspension of LPG production in Kurdistan following the incident, which took place last year, coupled with the lower hydrocarbon prices.

As I mentioned earlier, the repairs to the LPG loading bay have been completed and the production capacity has since been reinstated.

If you look at the total decline in our gross revenues, $16 million was due to the lower hydrocarbon prices and the balance was due to the quantity variance. The suspension of LPG production in Kurdistan itself contributed $33 million to the decline.

Investment and finance income for the first half was higher by $34 million and this was as a result of the gain we realised in the first quarter on the partial sale of MOL.

As a result, the net profit for the first half was at $93 million and it remained lower by $12 million compared to the first half of 2012, and this was a combination of lower revenues, partially offset by the gain on sale of MOL.

We will now move to slide 10 where for ease of reference we have provided a profit after tax bridge. This profit after tax bridge compares the second quarter of 2012 with the second quarter of 2013 and shows the key variances which have contributed to the slightly lower profitability.

As I mentioned earlier, the decline in gross revenue on a like quarter basis was, in whole, due to the lower hydrocarbon prices. Royalty and tax in Egypt, which is the Government share, was higher by $5 million and this was mainly due to the higher production in Egypt in the second quarter. The cost of sales and our depreciation and amortisation increased by $9 million during the quarter and this was mainly due to the one-off prior period charge of $7 million which we had to take for the oil field services. There was a $4 million decline in investment and finance income, and this was due to the lower dividend income we get from MOL, as our holding has now reduced to 47% compared to the 100% we were holding last year.

You will now turn to slide 11, which provides you a profit after tax bridge between the first half of 2012 and first half of 2013. This will show us the key variances between the two periods and most of them I've already explained.

In summary, during the first half of 2013, revenue was lower by $46 million due to lower hydrocarbon prices and lack of LPG production in Kurdistan, and this was partially offset by the $34 million gain we had from the partial sale of MOL in the first quarter of 2013.

Moving to slide 12, we have presented here the production graphs for the company as a whole, Egypt and Kurdistan. As Patrick mentioned earlier, in Egypt our production increased by 12% in the second quarter of 2013, as we tied back earlier discoveries. In Kurdistan, however, our production was lower by 3% and this was mainly due to the lack of LPG production. The LPG loading bay has since been prepared and our production capacity has been restored.

On slide 13 we have presented a comparison of the hydrocarbon prices. As I mentioned earlier, the lower hydrocarbon prices negatively impacted our revenue in the first quarter and in the first half. As is evident from these charts, both in the first half and the second quarter of 2013, international market prices for Brent crude, LPG, and condensate remained lower than the comparable prior periods. Hydrocarbon prices have since improved.

We will now move to slide 14. On slide 14 we have presented an analysis of collections, which I'm sure is of interest to all of you. In Egypt, our billing to collection ratio in the first half stood at 68% and we were able to collect $55 million in the first half. In quarter two of 2013, our collections in Egypt were impacted by the macroeconomics and remained lower as a result. Recent announcements of proactive support in Egypt, together with the Government's desire to increase gas production, are seen as positives for resolving the receivables situation.

In Kurdistan region of Iraq, our collections remained at similar levels to quarter one. In total, during the first half we collected $61 million, which gave us a collection to revenue ratio of 56%.

This brings our financial review to an end and we will be happy to take questions later on. I will now hand over to Leonardo, who will take you through the country business highlights.

Leonardo Salvadori

Thank you Azfar,

Good afternoon everyone. I will now review the business highlights for 1H2013 for the countries were we are running our operations.

Let's start with Slide 16, which is giving an update on the business environment in Egypt.

- We believe that, due to the recent broadening of the relations with the international community, the situation in Egypt is likely to get more stable from the economic and political point of view. (Some $12 billion have been received by the Egyptian Government from Saudi Arabia, UAE and other Gulf Arab states, providing a very important support to the economic development in this critical time for the country)
- Foreign reserves raised to $18 billion last month, which is the highest monthly rise since 2011. This is of course a very encouraging indicator.
- Another good signal is coming from the gas pricing point of view. What we see happening in Egypt is a gradual increase of the gas prices applied to the high consumption factories like steel, fertilizers and cement going from 2.5$/MMBTU to 4$/MMBTU in late 2011 and to 6$/MMBTU in 2013 for the cement industry with the very likely chance that this price will be extended to the other sectors.
- The recent political events have not had any impact on our field operations and the cost related to these operations. As a matter of fact Dana Gas Egypt set a production record in July 2013, reaching a production rate of 39,000 boe/d, which is the highest rate since December 2011.
- We are confident that the Egyptian assets can provide opportunities for more investments in the country and more growth.
- The issue, as discussed in the financial section, is around the Receivables payments by the Government. A resolution on these payments would give us the necessary support to increase our investments in the country.

Let's move now on Slide 17, to give an update on our main area of operations, the Nile Delta onshore.

The activity carried out during the first half of 2013 led to one discovery, called Begonia, as shown on the map. The well tested 1,600 boe/d.
The preliminary 3P reserves estimated for Begonia are about 15 Bcf of gas with associated condensate from the Lower Abu Madi Formation reservoir.

During the period we have been working on the finalization of 4 Development Leases approvals as a consequence of our 4 recent most discoveries made between 2012 and 2013.

The 4 discoveries are: West Sama, Allium, Balsam and Begonia. West Sama and Allium have already started their production, following Government's approval, whereas Balsam and Begonia are planned to be on stream between the end of 2013 and 2014. The additional production from Balsam and Begonia is estimated around 60 million scf/d gas which represents 25% of the current production.
In early 2013, the new field South Abu El Naga, was put on stream reaching a total production of about 7,000 boe/d, and contributing substantially to the production increase vs 2012, as previously illustrated.
Concerning the Projects, there are 3 main projects in progress: the Installation of compression facilities at El Basant to keep up the production of the field, the El Wastani Plant capacity de-bottlenecking in order to bring the capacity up to 200 mmscf/d gas and Salma/Tulip tie-in (initial production of 20 mmscf/d this year to be raised to 50 mmscf/d gas in 2014).

Let's now turn into Slide 18, to review the Operations in Kurdistan, Northern Iraq.

The average total net production was 27,300 boepd of which:
Natural Gas: 130 mmscf/d
Condensate: 5,730 bbl/d

These are representing the 40% Dana Gas share of the overall production from the field.

During the 1H2013 the focus has been put on hiring new key positions (Operations GM, 2 Plant Managers, Head of HSE, Engineering Mng) in order to improve the field performance; Another important achievement was the engineering, fabrication, installation and commissioning of the new LPG loading bay with plant capacity at 900 tons/day achieved on July 17, 2013.
Going forward this should result in a positive change in the production mix, which will include the LPG.
(Discussions with buyers, through the regional Government, are ongoing)

On Slide 19 we are showing a brief update on the Zora Project in UAE.

On Zora we are working on the implementation of the Field Development Plan for a total investment of $150mm of which Dana Gas is participating for its 50% share.

The Plan is including an offshore platform connected to the shore with a 35 km pipeline and an onshore gas treatment plant.
(We are in discussions with the Ajman Government to close out technical and financial arrangements and are keen to progress the project ASAP. Considering that this is a relatively small project, our expectations are that once all approvals are in place, we should look at first gas in 12 to 18 months thereafter).
On this respect all technical and commercial bids for the Field Development have been evaluated and the recommendations have been made for bid committee approval.

The terms sheets for the project financing have been signed as well.

This brings the Country Business Highlights to an end and I will now invite Robinder to introduce the next speaker.

Dr Patrick Allman-Ward

Thank you. Starting again with HSSE, just a refocus that we are putting a lot of attention on HSSE performance in our company, and that we are taking a risk-based approach; we have carried out a number of risk analyses on our different plants and facilities in our different assets, and we are making sure that we are managing these assets to internationally accepted levels of as low as reasonably possible risk exposure.

We've heard that the improving foreign currency situation in Egypt is going to hopefully positively impact the receivable situation. Clearly, we continue to be in close dialogue with the Government on this issue.

We continue to take a cautious approach towards capital investments and we are keeping these investments in line with our cash collections, with the priority being given to adding reserves, replacing production, and identifying opportunities for increasing incremental production.

We continue with our comprehensive evaluation of key business risks and identification of mitigation strategies and you will find in the back of the slide pack also some further details in this regard.

We continue to look at organic growth opportunities and we actively involved in evaluating several of these, and we are doing so in keeping with the Company's growth strategy going forwards. Clearly, receivables both in Egypt and in Kurdistan are a major area of focus for the Company, and we continue to strengthen our business relationships with Governments and with our business partners in this regard.

Finally, on the people aspect, we are further strengthening our management capabilities in the management team in Dana Gas through recruitment of key staff, notably of course the Chief Financial Officer.

That brings us to the end of the formal presentation part of the engagement. I'd like to hand now back to Robinder to go into the question and answer session.

Robinder Singh
Thank you, Patrick. That ends our presentation and we are now ready to your questions.

Question and Answer Session

Operator
Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding until we have the first question.

We have a question from Sharif Eid, Franklin Templeton. Sir, please go ahead.

Sharif Eid
Thank you for the presentation. My question is regarding the change in revenues, both for the quarter as well as for the half, so specifically I am referring to slides 10 and 11. My question is regarding the facts that you have for the change in quantity, so if I'm looking at, say, the second quarter of 2013, you have a zero effect of quantity, whereas for the half there is a 30 million decline attributed to the change in quantity, so the questions there that I have are really – for one thing, production is higher, so the question is why is that negative to begin with? The second one would be for the half, the number seems large as well, so I mean besides the fact that revenue should – I mean I would have expected it to be a higher number not lower for that half, it also is 30 million, which is about a third of the profit of the half the year before that, so if you can shed some light on that I would appreciate it.

Azfar Aboobakar
Thank you, Sharif. If you're looking at the quarter-on-quarter comparison, as you rightly said, there is a small rather negligible impact of the quantity and the main reason for that is that the loss of the LPG revenue in Kurdistan started from around mid-June 2012, so we had 2.5 months of LPG production in Kurdistan in 2012, which was not there in 2013, so this was the reduction which has now taken place, but this is more than offset

by a 12% production rise in Egypt, and hence on a monetary basis you see a zero impact. Whereas, when you look at the first half and compare the first half of 2013 with the first half of 2012, most of the quantity variance is coming from the first quarter. In the first quarter of 2013, we had zero production for LPG, whereas in 2012 first quarter, we had full production of LPG, and hence the LPG variance itself during the first half of 2013 was $33 million.

Operator
We have a question from Gus Chehayeb, Exotix. Sir, please go ahead.

Gus Chehayeb
Yes, hello gentlemen, thank you very much for the call and also it is great to see that the Company has maintained good liquidity throughout the second quarter as well. I have got a few questions, but I will just hit two and then maybe step back into the queue. First off, I wanted to ask you about how much was spent on CapEx in Egypt and Iraq in the first half of 2013, and what your projections are for the full year or rough estimates for the full year.

Azfar Aboobakar

In Egypt, we have spent $40 million during the first half of 2013, and as Patrick mentioned, our objective has been to calibrate our capital investment with our collections. In Kurdistan, our CapEx has been to the extent necessary to maintain the plant, and to do the basic HSE requirements. We also had major CapEx in terms of the LPG loading bay in the first half of 2013, but that was mostly covered by insurance.

Gus Chehayeb
Okay, and then for Sharjah as well, was there any CapEx spent on Zora Field as well, development there.

Azfar Aboobakar
For the Zora Field, also in the first half we had minimal CapEx. I would say around in the region of $5-7 million. As Leonardo mentioned, we have received all the bids, they have also been evaluated and we will now proceed with the awards, and obviously you will see more spend coming in the third and the fourth quarter.

Gus Chehayeb
Wonderful, okay, great, and thank you and for the full year, would you mind outlining your estimates for the full year for these three areas?

Azfar Aboobakar
Well, as we mentioned we continue to calibrate our capital expenditure with our collections, so it all depends how the collections go in Egypt. Predominately most of our capital expenditure will be in Egypt and UAE. For Kurdistan, it is mainly the maintenance expenditure, which we incurred.

In Egypt, specifically, our capital expenditure will be in line with our collections. We have a couple of fields, which we need to bring on-stream, so that is about it, yes.

Gus Chehayeb
Okay, all right, I appreciate it, I realise that it is uncertain at this point and you can't give an exact number. That is understandable. In terms of Kurdistan and the collections there it is really great to see that the numbers moved up, the percentage of collections continues to trend up, which is wonderful, but seeing that also, and given that production there is moving upwards as well, and that number is still…the percentage collection number is still less than 100%, we are going to continue to see, I think, receivables climb there. I am just wondering what the end game is there. How do you see collections finally moving towards 100%, and even if they do move towards 100% we still have the backlog that needs to be paid. How is this all going to be resolved over the long-term? Is this dependent on the dispute between Baghdad and Kurdistan being resolved, or are you looking forward to possibly an export pipeline to Turkey or any other route of monetising and collecting on these outstanding receivables. I am just trying to look at it from a high level, big picture perspective. How will you eventually collect on these receivables?

Dr Patrick Allman-Ward
Gus, maybe I can handle that question, this is Patrick here. The title for all of the products from the Kurdistan joint venture passes to the KRG at the facilities fence, so the Government is responsible for the handling and for the sale of the products. The joint venture receives, however, under the terms of the agreement that we have with the Government international prices for these products. We are aware of the fact that the KRG is only receiving a discounted value against the international market value, by virtue of the fact that they are having to pay for transport of these products out of the country, and if they are selling these products in country, there is a discount on the product value for the sale of these products within Kurdistan. That represents a large component of the delta between what we are supposed to be paid from a contractual basis, and what we are actually being paid by the Government.

We are in discussions with the Government to identify mechanisms and ways in which we can close that gap. Clearly, the Kurdistan Government itself is limited in terms of its capacity for payment, by virtue of the on-going dispute with the Baghdad

Government. Obviously, we are hopeful that that dispute will resolve itself in the short-term, which can only be of benefit to us as a joint venture. For the time being, we continue our discussions with the Kurdistan Government, the discussions are on-going, and we are hopeful that we will be able to arrive at a satisfactory conclusion in the near future.

Gus Chehayeb
Thank you, Patrick, I appreciate it.

Operator
We have a question from Montasser Khelisi, Quantum Investment Bank. Please go ahead.

Montasser Khelisi
Thank you for all this information. My first question is concerning the production. Is it possible to have a breakdown of your production, of the volume by type of product? My second question concerns the four new development leases in Egypt, if you can give us the expected production that these four wells will add to the production in Egypt. Thank you.

Robinder Singh
Montasser, this is Robinder. May I request that we take this offline? If you can write to me, I will come back to you with the response to the question very quickly.

Operator
The next question is from Michael Roche, The Seaport Group. Sir, please go ahead.

Michael Roche
Thank you very much for the call gentlemen. The question I have is on the UAE project. Could you perhaps shed some more light on when you expect this project to become executed and is there any timeframe on the start of that, or the beginning of any positive cash flow from that? Thank you.

Dr Patrick Allman-Ward
Perhaps I can handle that, this is Patrick here. We're currently in discussion with the Ajman Government concerning finalisation of our agreements with them, and of course, all parties are interested in progressing with this project as soon as possible. It is a relatively small project, but our expectation that is, once we have got all these approvals in place, that we should be looking to get first gas between 12 and 18 months. Where we stand right now, it should be towards the end of next year 2014.

Michael Roche
Thank you.

Operator
We have a question from Jaffer Nazim. Sir, please go ahead.

Jaffer Nazim
Yes, hi, thank you. Can you tell us what your collections in your Egyptian business, you are also getting paid in Egyptian Pounds, so just wondering in the current collection that you got in the last quarter, how much of that was Egyptian Pounds versus US Dollars. Also, what is the quarterly, I guess, run rate of operating expenses denominated in Egyptian Pounds in that segment?

Azfar Aboobakar
Of the total payments we have received to date, approximately $13 million, 1-3, has been received in US Dollars and the balance in Egyptian Pounds.

Jaffer Nazim
I guess the balance in Egyptian Pounds, that should give us an idea about what…that is approximately your run rate spend in Egyptian Pounds for CapEx as operating expenses.

Dr Patrick Allman-Ward
Well, maybe I can step in here and also elaborate a little bit further – this is Patrick – to say that I think by comparison to most oil and gas companies working in Egypt, Dana Gas is relatively unique. We have and reinvest a very significant part of our revenues in Egypt in projects in Egypt, something close to 80% of the receivables that we get we reinvest straight back into the economy in Egypt. We think of course that this is a very powerful value proposition to the Government, because, by contrast, perhaps to others who will be taking the money out of the country. We are reinvesting that money straight back into the country, creating jobs and opportunities and investment opportunities within the country. We feel this is a very powerful value proposition to the Government, but it also means that we have greater flexibility than most other contractors in Egypt, because we can afford to take a higher percentage of the receivables in Egyptian Pounds, given that we reinvest so much of it back in the economy in Egyptian Pounds.

Jaffer Nazim
Okay, thank you and a question on the KRI Business. I am trying to figure out how much excess cash do you expect to generate in KRI over the course of this year, assuming that your receivable collection remains at the current ratio of 55% or so, because if I look at your numbers from last year, I think your cash, operating expenses in Kurdistan are around $20/25 million and you have fairly minimal CapEx. Would it be fair to say for Dana Gas as a whole, that Egypt is self-sustaining on a cash basis or cash flow neutral and Kurdistan will generate excess cash, so that at the corporate level your cash balance should increase over time, over the course of this year, ignoring the interest and the overheads at the corporate level? Would that be a fair statement?

Azfar Aboobakar
Yes, I would say so. We have positive cash generation from Kurdistan, which is used for the corporate overhead, and Egypt – as far as Egypt is concerned, we try and keep Egypt self-sufficient. As Patrick said, most of the cash, which we generate, is reinvested in the country.

Jaffer Nazim
So Egypt you don't have to put in any cash from the head office, so the cash synergy you're getting from Egypt, that is all that's needed to run the Egyptian business.

Azfar Aboobakar
Absolutely, that has been the case so far.

Jaffer Nazim
Okay, great, thank you. That is all I had.

Operator
We have a question from Mr Andre, VR Capital. Please go ahead.

Mr Andre
Hi, yes, sorry, my question was already answered. Thanks.

Operator
Thank you. The next question will be from Sanyalak Manibhandu, NBAD Securities. Please go ahead.

Sanyalak Manibhandu
Yes, I have two quick questions. The first relates to the contract with the NIOC. I know it has been in arbitration for a number of years now. Is there any update you can share with us? That is the first question.

The second question, I heard from Leonardo that gas prices in Egypt are going up. Would that actually have a positive impact on the contract with Dana Gas, or is that contract sticks in terms of pricing. Thank you.

Dr Patrick Allman-Ward
Thanks for that question. On the first one, which I will handle, there is no dispute between Dana Gas and Crescent concerning the NIOC contract. The arbitration currently taking place is between Crescent Petroleum and NIOC, and the arbitration process is continuing. There has been a recent hearing held in The Hague in the month of June, and we are hopeful for a decision to be made before the end of this year.

Perhaps you could repeat your second question, was that concerning Egypt?

Sanyalak Manibhandu
Yes, in Leonardo's presentation I think he mentioned that gas prices were trending up in Egypt, and my question is that, will there be a benefit to Dana Gas from gas prices trending up, because I recall that the contract that Dana Gas has is a fixed price contract, so could you clarify that please.

Dr Patrick Allman-Ward
Yes, maybe I will handle that as well. Yes, our contract is to sell our products to the Government, but I think, again, quite unusually Dana Gas, in Egypt, has got in its gas sales agreements a provision to sell gas directly to third parties, so we actually have that right to sell gas directly to third parties, and in that sense, yes, increases in gas prices to third parties could potentially be of interest and positive impact to us.

Sanyalak Manibhandu
Thank you.

Operator
We have a question from Gus Chehayeb, Exotix. Please go ahead.

Gus Chehayeb
Yes, hi, just one follow-up question. I notice that royalties, the royalty percentage in Egypt for the first half of 2013 jumped up quite meaningfully over the first half of 2012 from 35% to 42%. Is this an anomaly? Is this something that we should expect to continue, a higher royalty rate in Egypt going forward, or is this kind of a one-off? If you could just help explain that and put it in perspective please.

Azfar Aboobakar
You need to look at royalty along with the tax. The royalty at tax together is the Government share under our agreements with the Egyptian Government, so if you look at one in isolation, you know, it is not going to make much sense, but if you look at them together, the royalty and tax together should be ideally 53-55% of the total gross revenue. It is just the presentation in the financials where we have to split and show tax below the line, but if you're computing as a percentage, you ought to take them together.

Gus Chehayeb
I see; I appreciate you addressing that. I understand that they're both payments to the Egyptian Government. Can you help explain exactly why they have to be split up in this manner? Are they different types of payments?

Azfar Aboobakar
Just to give you a very brief explanation, there is a tax regime in Egypt and there are agreements, the Government is obliged to pay the tax on our behalf, so the tax computation is done, the tax amount is calculated, which is shown in the income statement. However, the tax payment comes out of the Government's share and that is the reason tax is being shown separately below the line.

Gus Chehayeb
Great, thank you, I appreciate it.

Operator
We have a question from Sharif Eid, Franklin Templeton. Please go ahead.

Sharif Eid
Hi, thanks for taking me again. Just a small question I had on the production figures you have, specifically the ones on slide 12. Are those production figures as of the end of the periods noted, or are they averages over those periods?

Azfar Aboobakar
These are average.

Sharif Eid
Okay, thank you.

Operator
We have a question from Clement Mauve, Al Dhabi Investment. Please go ahead.

Clement Mauve
Hi, good afternoon, thank you for taking my question. I would just like to know if you can give us more clarity, actually on the way you link the receivables in Egypt to the CapEx. Can we expect some delay in the El Wastani plant, or are you actually, if like, the receivable collection is actually going down quarter-on-quarter, which part of the CapEx are you going to decrease in the future. Thank you.

Dr Patrick Allman-Ward
We are trying to make sure that we keep a balance between our investments in Egypt and the receivables situation, and as Azfar has indicated Egypt is a self-funding, self-financing entity, so clearly we have to keep that balance, and obviously with the deterioration in the receivables collections as a percentage during the first half of the year, that will necessarily impact our plans for investments going forwards in the second half of the year, unless we can come to an agreement with the Government in writing, concerning a plan for payment over the course of the second half of the year. That is the basis for our discussions with the Government in Egypt.

We have a number of projects, including the El Wastani debottlenecking plant that we believe can add significant production extremely cheaply and extremely quickly, by comparison to most other companies and most other projects. We believe that this is a compelling proposition for the Government, that they can spend that money with us and we will be able to increase that production fast and cheaply.

In fact, we did manage during the course of the first half of the year, despite the relatively low levels of receivables, we did manage to continue with some key investments that I was mentioning earlier. We are picking investment opportunities that allow us to increase production at minimal cost, and we did actually manage to increase significant new production over the first half of the year. In fact, our latest instantaneous production levels in Egypt were around 39,000 BOEPD, so that shows a very significant uptick in production, despite the limitations that we have been having on our CapEx expenditure.

Clement Mauve
Sure, so actually should we actually stick to the 1 MMSCFD that you were actually highlighting in the next couple of quarters, or should we actually postpone it, given what happened in terms of receivable collection last quarter.

Dr Patrick Allman-Ward
Sorry, I didn't understand that question. Could you repeat it please?

Clement Mauve
Yes, actually in the first quarter conference call you were mentioning that the debottlenecking 180 is going to happen in a few quarters, so I was wondering if we have to stick to this guidance, or if given what is happening in Egypt, you might actually delay the debottlenecking by a few quarters.

Dr Patrick Allman-Ward
Well, the debottlenecking comes in a number of different phases, and I fact the first debottlenecking exercise has been carried out and we are currently in the process of testing the plant in order to see whether we can increase production to an intermediate level in El Wastani, that is a level of 180 MMSCFD or so, and thereafter we have plans to further debottleneck the plant to 200 MMSCFD possibly by the end of the year, but again, it depends very much indeed on the balance between the receivables and the expenditure for a while.

Clement Mauve
Sure, but for now you stick to this guidance, right.

Dr Patrick Allman-Ward
Yes.

Clement Mauve
Okay, just also a question actually, I mean, something that was asked actually in the last conference. What is happening in Chemchemal? Is there like monetisation potential at some point, or there is nothing happening right now?

Dr Patrick Allman-Ward
As I said earlier, we are constantly in discussion with the KRG Government; we have a number of issues that we are discussing. One of those issues is indeed expansion of production from our Khor Mor and Chemchemal assets in Kurdistan and we are continuing those discussions to see if we can find a win-win solution.

Clement Mauve
Do you think there is a potential for a farm-out at some point?

Dr Patrick Allman-Ward
Well I think all companies with a portfolio of assets are always looking to try and optimise the value of that portfolio, so clearly, there is that possibility, but we don't currently have any plans to do so.

Clement Mauve
Thank you.

Robinder Singh
If there are any other questions or a last question, we are happy to take that.

Operator
We have no other questions, thank you.

Robinder Singh
All right, in which case thank you very much. Our contacts are available to you on the slide pack, so please feel free to write to us or call us should you need to continue this dialogue or keep in touch.