



# Pétrole et Gaz Arabes

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## Stratégies et Politiques *Energétiques* (SPE)

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### **Berislav Gašo, MOL**

**Pour 2016, notre objectif est d'avoir des activités qui s'autofinancent à un prix du brut de \$35 par baril**

**Nous devons déverrouiller le potentiel de notre portefeuille existant, que ce soit en Europe centrale et orientale, au Moyen-Orient, en Russie et ailleurs**

## INTERVIEW

*Ci-dessous le texte d'une interview en anglais avec M. Berislav Gašo, qui est le Chief Operating Officer de MOL Group Exploration & Production. Sur le groupe hongrois MOL, voir également Document en date du 28 février 2016.*

**Pétrole et Gaz Arabes (PGA):** MOL Group's hydrocarbon production rose by 7% to 104,000 barrels of oil equivalent per day in 2015 and to 114,000 boe/d in January 2016. What are the main reasons behind this strong increase last year?

**Berislav Gašo:** In 2015, the production growth was mainly supported by a 4,000 boe/d increase in the United Kingdom and a 2,000 boe/d rise in Croatian production. We have shown some pretty remarkable achievements at our legacy assets in Croatia and Hungary. We have been able to successfully reverse production decline through comprehensive production optimization and intensification efforts. We stabilized production and kept it almost flat in Hungary, while in Croatia production even grew by 7%. Most impressively, we have been able to increase onshore crude production by 5% in Hungary and by 20% in Croatia. We are also continuing our intensive development programs in other stable cash flow generation assets, such as on the Baitugan asset in Russia and the Tal Block in Pakistan, which already produces over 75,000 boe/d in total. We are trying to unlock value wherever we have it in the portfolio. Additionally we are also looking at visible contribution increase from our UK assets through recently sanctioned development and infill projects.

**PGA: What are your production targets or expectations for the 2016-2018 period?**

**B. G.:** We are looking at a slight production increase with our current portfolio. In 2016 and 2017 we expect 105,000 to 110,000 boe/d, in 2018 probably around 110,000-115,000 boe/d. However all the investments that we make in volumetric growth organically or inorganically have to make sense at today's oil prices. In short, the main conclusion for me is that it is more important to deliver value than delivering barrels. Everyone can make money at a \$100 per barrel oil price, but at \$30-40 this is a big challenge for the industry. We have proven in 2015 that even under these circumstances our portfolio can generate substantial value, largely due to our very competitive direct production cost. Going forward, in 2016, our ultimate objective is to achieve an entirely self-funding business at U.S.\$35/b.

**PGA: One of your goals is to be able to breakeven at an oil price of \$35 per barrel, which is a very challenging one. How and when will you reach this objective?**

**B. G.:** As I mentioned we are working on realizing all the upside that is left in our stable cash flow generating assets. Second, we need to continue removing residual risks, and here the biggest challenge for us is in the United Kingdom, where the entire industry is suffering in a \$30 environment. We need to respond to these challenges together with our partners and we're working actively on that. Third, we are looking at significantly aligning our cost base with current oil prices. We plan to have an OpEx [operating expenditures] cut of \$80-100 million implemented in 2016 and we are cutting back on capital expenditures roughly by 20% and exploration expenditures by more than 50%.

**PGA: MOL relinquished the Akri-Bijeel block in the Kurdistan Region of Iraq at the end of 2015. What went wrong and what did you learn from this experience?**

**B. G.:** Last year we commissioned an independent third party analysis, which confirmed our in-house re-assessment of the block's potential. Unsuccessful exploration is of course part of the oil & gas business, and even though we had a couple of discoveries in Akri-Bijeel eventually the expected recoverable volumes did not pass the economic limit test. With the current low oil prices we have to make sure that we premeditate more than ever, and this is also what we learned from our experience with the Akri-Bijeel block.

**PGA: What is the present production level on the Shaikan block in the same part of the world and what are the next steps in terms of development of this permit?**

**B. G.:** Shaikan is a world class oil discovery with over 600 million barrels of 2P reserves. It has ongoing commercial production from two facilities with a nameplate capacity of 40,000 b/d. Average production was around 36,000 b/d in December 2015. The operator, Gulf Keystone, exercises a prudent approach about further investments. The development of the block's vast potential is subject to regular payments for production and all arrears.

**PGA: Could you give us an update on your exploration activities on Block 66 in Oman?**

**B. G.:** MOL has been present in Oman since 2006, and currently we have a 100% interest in Block 66, which is located close to the Saudi border in the mid-Western part of the country. The first exploratory well (Maisoorah-1) was spudded in November 2015, and reached the targeted total depth of 3,240 meters in January 2016 without penetrating hydrocarbon bearing zones. The well has since been plugged and abandoned. The work program for 2016 includes the drilling of the second committed well which will test a prospect with 48.6 million barrels unrisks estimated resources of light oil.

**PGA: Do you intend in the short-to-medium term to develop your activities outside Europe or do you intend to focus on Central and Eastern Europe? What is the importance of the Middle East and Africa in**

## **your internationalization strategy?**

**B. G.:** In 2016 we are concentrating on what we have and we will make sure that our entire portfolio will be self-funding at \$35/b. We have to unlock the value of the existing portfolio, be it in CEE, the Middle East, Russia or elsewhere. We do have a strong balance sheet to look for new opportunities, especially in countries we are already present, but I don't believe that we should be rushing at this point in time. There is still huge disparity in sellers' and buyers' assumptions.

MOL Group has been present in the Middle East and Africa region for two decades and this is one of our core strategic regions. We are not only partners in some fantastic assets, but moreover MOL Group enjoys excellent relations with the governments, local authorities and the communities, which is also rooted in the traditionally strong ties between Hungary and the Middle East. We truly understand the local needs and have formed partnerships to further deepen our ties through support for a wide range of initiatives in the areas of education, infrastructure, archeological cooperation and humanitarian efforts.

## **PGA: What could be the capex [capital expenditures] allocation to MOL's upstream sector in 2016 and beyond?**

**B. G.:** We are looking at an organic CapEx of \$500-600 million in 2016, which is around 15-30% lower compared to 2015. Further ahead, a lot depends of course on the oil price, but as a general rule we cannot spend more money than what we are earning.

## ***CURRICULUM VITAE***

### **Dr. Berislav Gašo, Chief Operating Officer – MOL Group Exploration & Production**

Dr. Gašo is MOL Group's Chief Operating Officer of Exploration & Production since May 2015. Before this role he has been MOL Group's SVP of Controlling, Accounting and Tax and an Executive Board Member of INA in charge for restructuring. Before that he spent five years with McKinsey & Company as a leader (Junior Partner) in the firm's European Petroleum and Operations Practices. Dr. Gašo gathered extensive industry experience in Western/South Eastern Europe, Russia, Central Asia and Middle East. He studied mechanical engineering at the Technical University of Munich (TUM) and the Massachusetts Institute of Technology (MIT). He also studied economics and business administration at the University of St. Gallen (HSG) and the Harvard Business School (HBS).



