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FOR IMMEDIATE RELEASE

**OGDCL Audited Financial Results for the Full Year Ended 30 June 2016**

Oil and Gas Development Company Limited (OGDCL), (Ticker: OGDC), today announces its financial results for the Full Year ended 30 June 2016. Financial Statements have been prepared in accordance with International Financial Reporting Standards.

**Highlights of the Full Year include:**

- OGDCL's net sales registered Rs 162.867 billion compared to Rs 210.625 billion in last year
- Net profit before taxation registered Rs 80.507 billion compared Rs 127.025 billion in last year
- Net Profit after Taxation registered Rs 59.971 billion as against Rs 87.249 billion in the preceding year translating into Earnings per Share of Rs 13.94
- The Board of Directors declared final cash dividend for the year at Rs 2.00 per share.
- Operating profit margin and net profit margin were 39% and 37%, respectively.
- Average net realized price of crude oil sold was US\$ 39.07/bbl as against US\$ 63.29/bbl during last year
- Average net realized price for natural gas sold was Rs 253.77/Mcf as against Rs 272.61/Mcf during last year
- A record 5,336 Line Kms of 2D and 3,459 Sq. Kms of 3D seismic acquisition completed
- Twenty Six (26) wells were spudded, comprising of twelve (12) exploratory/appraisal and fourteen (14) development wells during the year ended 30 June 2016
- Company's exploratory efforts yielded six (6) new oil and gas discoveries namely; Thal East-1, Thal West-1, Bitrism West-1A, Aradin-1, Nashpa X-5, Chak Naurang South-1
- As at June 30, 2016, Net crude oil production of 40,609 barrels per day, net gas production of 1,056 MMcf per day, net LPG production 342 Metric tons per day and net Sulphur production of 39 Metric tons per day was witnessed during the period under review

	<b>FY 2014-15 Rs in millions</b>	<b>FY 2015-16 Rs in millions</b>
<b>Net Sales</b>	210,625	162,867
<b>Profit before Taxation</b>	127,025	80,507
<b>Profit after Taxation</b>	87,249	59,971
<b>Earnings per Share - Rs</b>	20.29	13.94

## **MD & CEO's Statement**

Mr. Zahid Mir, MD & CEO, while commenting on OGDCL's full year FY2016 results stated:

"I am pleased to note that OGDCL continued to deliver consistent financial results coupled with steady operational performance while successfully maintaining its position as the leading performer in E&P sector in Pakistan in terms of oil & gas reserves, production and exploration acreage in the Country. Our exploration-led growth strategy is based on building a balanced resource portfolio that includes a diversified mix of high-impact exploration, near-term development projects and material production growth.

Due to depressed oil prices environment during the period under review and in line with the overall E&P industry trend, OGDCL too witnessed a decline in its profitability when compared to the previous corresponding period. OGDCL's Net Profit after Taxation registered at Rs 59.971 billion as against Rs 87.249 billion in the preceding year translating into Earnings per Share of Rs 13.94. However, it will not be out of place to highlight here that OGDCL, based on aggressive exploratory efforts to discover new hydrocarbon reserves, made six (6) new oil and gas discoveries during the year. The Company has also achieved an all time record in both 2D and 3D seismic acquisition of 5,336 line kms and 3,459 sq. kms during FY 2016. Whereas our oil and gas production has remained stable during the year, we are confident that there will be a substantial increase in production volumes due to KPD-TAY project coming on stream in the near future.

It will be improper to not understate the immense contribution and relentless efforts of OGDCL's work force which have been instrumental in ensuring that OGDCL's goals and targets are not only met but are exceeded.

Let me conclude by saying that against the backdrop of plummeting international oil prices, I am pleased to inform you that OGDCL has been successful in converting this challenge into an opportunity through re-aligning its business growth strategy by undertaking fast track exploration activities, augmented commercialization of its reserves along with prudent investment selections and effective cost controls which has laid a strong foundation for reaping long term benefits of continued business sustainability and maximizing value to our shareholders."

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**Notes to Editors**

OGDCL, the largest petroleum Exploration and Production (E&P) Company in Pakistan, is listed on Pakistan Stock Exchange (PSX) and its Global Depository Shares (GDS) are traded at the London Stock Exchange since December 2006. It holds the largest portfolio of recoverable hydrocarbon reserves of Pakistan, at 36% of gas and 59% of oil, respectively, as at June 30, 2015. It contributed 28% of the country's total natural gas production and 48% of its total oil production during the financial year 2015-16.

With a portfolio of 60 exploration licences, the Company has the largest exploration acreage in Pakistan, covering 31% of the total awarded acreage as of 30 June 2016. Currently, all production volumes are being realized from onshore areas of Pakistan, however, the Company also has working interests in Pakistan's offshore exploration blocks.

OGDCL had a net profit after tax of Rs 87.249 billion for the year ended 30 June 2015.

## SUMMARY RESULTS

During the year under review, OGDCL continued to deliver robust financial results coupled with steady operational performance while successfully maintaining its position as the leading performer in E&P sector in terms of oil & gas reserves, production and exploration acreage in the Country.

### Financial Performance Review

Persistent slump in international oil prices owing to crude supply glut in the market, save for a mild price recovery observed in last quarter of the year, continues to influence OGDCL's financial performance. The same is evident in the shape of average basket price of crude oil which during the fiscal year 2015-16 plunged from US\$ 74.45/barrel to US\$ 42.50/barrel when compared with the corresponding year. This suppressed oil price environment led the Company to report weaker realized prices for crude oil and gas averaging US\$ 39.07/barrel and Rs 253.77/Mcf compared with US\$ 63.29/barrel and Rs 272.61/Mcf respectively in the preceding year. In addition, the Company's Sales which have been affected by decrease in saleable oil and gas production were partially offset by increase in exchange rate to Rs 104.56 per US\$ from Rs 102.14 per US\$ during the comparative period leading the business to register Sales Revenue of Rs 162.867 billion (2014-15: Rs 210.625 billion).

During July 2015 - June 2016, reduced other income mainly due to interest income on investment and bank deposits coupled with increased exploration and prospecting expenditure on account of enhanced geophysical survey impacted OGDCL's profitability. Additionally, higher operating expenses reflecting an increase in depreciation of property, plant & equipment and training and welfare cost contributed to lower financial results thus making the Company to register Profit after Tax of Rs 59.971 billion translating into Earnings per Share of Rs 13.94.

Against the backdrop of the challenging times faced by the E&P companies due to collapse in international oil prices, lead the companies to witness squeeze in their profit margins, OGDCL has reset its business strategy whereby concentration on prudent investment selection and capital allocation remained the cornerstone in competitively carrying out the exploration, development and production operations to effectively meet the business challenges ahead. Going on, the Company on the account of exhibiting stable operational performance coupled with the financial strength to support ongoing development projects and activities will continue to exploit profitable opportunities to sustain business long term growth and create material value for the shareholders in the years to come.

### Liquidity and Cash flow Analysis

During the fiscal year 2015-16, OGDCL's cash flow from operations after working capital changes and payment of income tax of Rs 35.076 billion and royalty of Rs 19.339 billion was Rs 55.852 billion. After adjusting for investment and financing activities of Rs 35.586 billion and Rs 23.759 billion respectively (cash outflows), the Company's cash and cash equivalents at the end of the year were Rs 19.035 billion.

The prevailing inter-corporate circular debt issue in the energy sector is hampering the business performance as OGDCL's overdue receivables stood at Rs 78.704 billion as on 30 June 2016, outstanding against oil refineries and gas distribution companies. Out of outstanding receivables, Rs 59.395 billion and Rs 16.525 billion are overdue from related parties namely SSGCL and SNGPL respectively. In this respect, Company's Management with the aim to expedite the payment of outstanding receivable amount is carrying out vigorous follow-ups through personal visits, telephonic calls and written letters directed towards oil refineries and gas distribution companies alongside keeping Ministry of Finance and Ministry of

Petroleum & Natural Resources apprised of all such steps coupled with reporting position of receivables to the aforesaid institutes on daily basis. The Government of Pakistan is also pursuing for satisfactory settlement of inter-corporate circular debt issue on account of which the Company considers the receivable amount to be fully recoverable.

As on 30 June 2016, OGDCL's current and acid test/quick ratio were 4.32 and 4.01, respectively; reflecting the Company's sound financial position and adequate liquidity to meet day to day business requirements. Going on, the Company in validation of its going concern aspect is confident that its core activities will continue to generate sufficient cash flows to fund the business exploration, development and production operations.

Financial results for the year ended 30 June 2016 are summarized below:

	<b>(Rs in billion)</b>
Profit before taxation	80.507
Taxation	(20.536)
<b>Profit for the year</b>	<b>59.971</b>
Un-appropriated profit brought forward	392.056
Other comprehensive loss	(3.643)
<b>Profit available for appropriations</b>	<b>448.384</b>
<b>Appropriations</b>	
Transfer to capital reserves	(3.076)
<b>Distribution through Dividends</b>	
Final Dividend 2014-15 @ Rs 1.50 per share (15.00%)	(6.451)
First Interim Dividend 2015-16 @ Rs 1.50 per share (15.00%)	(6.451)
Second Interim Dividend 2015-16 @ Rs 1.20 per share (12.00%)	(5.161)
Third Interim Dividend 2015-16 @ Rs 0.50 per share (5.00%)	(2.151)
	(20.214)
<b>Un-appropriated profit carried forward</b>	<b>425.094</b>

### Final Dividend

The Board of Directors has recommended the final cash dividend of Rs 2.00 per share in addition to three (3) cumulative interim cash dividends of Rs 3.20 per share already declared and paid during the year. This makes a total dividend of Rs 5.20 per share (52.00%) for the year ended 30 June 2016.

### Exploration and Development Activities

OGDCL's exploration strategy is to maintain a balanced portfolio of exploratory assets in the established, promising and unexplored areas and focus on accelerating exploration activities leading to hydrocarbon reserves accretion. As of 30 June 2016, the Company's exploratory assets covered an area of 112,453 sq. km which is the largest exploration acreage held by any E&P Company in Pakistan. These exploratory licenses are spread across all four (4) provinces of the Country and the portfolio currently constitute sixty (60) owned and operated joint venture exploration licenses along with holding working interest in six (6) blocks operated by other exploration and production companies.

In line with its exploration-led growth strategy to enhance oil and gas reserves and embark upon new growth opportunities, OGDCL's fast track seismic data acquisition continued during the year under review. These exploratory efforts culminated in a record 3D and 2D seismic data acquisition of 3,459 sq. km (2014-15: 1,918 sq. km) and 5,336 Line km (2014-15: 5,430 Line km) respectively in various exploratory blocks including Armala, Dakhni, Fatehpur, Khanpur, Khiu, Ladhana, Layyah, Mari East, Pezu, Kulachi, Ranipur, Thal, Tegani, Zorgarh, Baratai,

Rakshan, Plantak, Shahana, Kohat, Khewari and Warnali. The Company also carried out geological field work of 182 Line km in Bostan exploration license. Moreover, to identify prospective areas offering the potential for commercial oil and gas reserves, 8,054 Line km of 2D seismic data and 2,061 sq. km of 3D seismic data of various blocks were processed using in-house resources.

In a suppressed oil price market where other E&P companies have resorted to scaling back of their capital expenditures, OGDCL carried on its active drilling campaigns to replenish and augment the hydrocarbon reserves and ensure business sustainability. In this pursuit, the Company spud twenty six (26) wells (2014-15: 25 wells) including twelve (12) exploratory/appraisal wells viz., Bachani-1, Bitrism West-1A, Thal West-1, Pirkoh Deep-1, Barkatwala-1, Daru Deep-1, Mithri-1, Dhodak Rubbly X-1, Khamiso-1, Chhutto-1, Thal East-2 and Jand-2 and fourteen (14) development wells viz., Buzdar North-2, Pirkoh-54, Pasahki Deep-6, Palli-2, Rajian-9, Dhachrapur-3, Kunnar Deep-11, Kunnar-10 & 11, Qadirpur-54 & 55 and Qadirpur HRL-9, 10 & 11 during the reporting period. In addition, drilling and testing of nine (9) wells spud in the previous fiscal year were completed.

In order to exploit unconventional oil and gas resources like shale gas and coal bed methane, first phase of the study carried out by an international consultant to evaluate shale gas/oil and tight gas/oil potential in OGDCL's operated blocks is completed while second and third phases of the study are underway. Moreover, to measure and evaluate shale gas potential at the well-site during the drilling phase, services including Well-site Geosciences and Canister Gas Analysis are being utilized at Kunnar Deep-10 and Suleiman-2. Moving forward with this study, shale/tight gas evaluation program comprising additional drilling, stress testing, analyzing cores and special logs is incorporated in wells under drilling and to be drilled in the future. Furthermore, efforts are in progress to formulate joint exploration strategy in collaboration with Pakistan Petroleum Limited for shale/tight gas evaluation.

Apart from the above, OGDCL being a low cost operator is focused on establishing its foot prints abroad by evaluating farm-in/farm-out opportunities in exploration as well as acquisition of oil reserves in domestic and international market. In this respect, the Company is making all out efforts to seek suitable opportunities that play to the business strengths and which are deemed financially viable. Moving forward, OGDCL is determined to carry on its extensive exploration program including fast track seismic data acquisition, data processing/interpretation and active drilling campaigns to replenish and augment hydrocarbon reserves, ramp up oil and gas production and contribute in the economic development of the Country.

### **Discoveries**

OGDCL's aggressive exploratory efforts to locate new hydrocarbon reserves bear fruit during the period under review resulting in six (6) new oil and gas discoveries having cumulative daily production potential of 50 MMcf of gas and 1,500 barrels of oil. These discoveries were witnessed at Thal East-1 & Thal West-1 both in district Sukkur, Aradin-1 in district Khairpur and Bitrism West-1A in district Sanghar, all in the Sindh province in addition to Nashpa X-5 in district Karak, Khyber Pakhtunkhwa province and Chak Naurang South-1 in district Chakwal, Punjab province. Preliminary reserves estimates attributable to the aforesaid discoveries are 171.27 billion cubic feet of gas and 9.20 million barrels of oil, with barrels of oil equivalent of 35.13 million.

### **Oil and Gas Reserves**

OGDCL's total gross remaining recoverable 3P reserves as of 30 June 2016 stood at 498.50 million barrels of oil and 11,689.20 billion cubic feet of gas. These reported reserves are in accordance with the Reserves Evaluation Study-2014 carried out by an independent consultant namely Bayphase Limited, UK for all OGDCL operated fields. Original reserves by Bayphase

Limited, UK have been revised/updated during the reporting period based on the production performance, workovers and development wells results of individual fields.

## Production

OGDCL's production strategy is to maintain and enhance hydrocarbon production profile by expediting connectivity of newly discovered exploratory, appraisal and development wells in the system, employing latest production techniques and innovative technologies to curtail natural decline and undertaking/completing ongoing development projects on seamless fast track to meet the growing demands of oil and gas in Pakistan. In this pursuit, the Company during the period under review added 5,700 barrels per day of crude oil and 40 MMcf per day of gas through addition of new wells; Chak 63-3, Chak 2-3, Mela-4, Loti Deep-1, Kunnar-10, Pirkoh-54, Palli-2, Nashpa X-5, Loti-19 & 20, Qadirpur-54 & 55 and Qadirpur HRL-9 & 10 in the existing gathering system. Moreover, the Company contributed around 48% and 28% of the Country's total oil and natural gas production respectively during the period July 2015 to June 2016.

In order to revive and enhance production from the mature wells, OGDCL during the reporting period carried out workover jobs with rig at Kal-3, Missakeswal-3, Sono-7, Pasahki North-1, Nim West-1, Thora Deep-1, Chak 2-2, Kunnar-6 & 8, Rajian 1 & 2 and Thora-1, 3 & 4. Likewise, rig-less workover jobs were carried out at various wells to boost oil and gas production. Moreover, to induce improvement in current well flow parameters, pressure build-up survey jobs were completed at various wells of Qadirpur, Sinjhor, Kunnar, Kunnar Pasahki Deep, Maru Reti, Uch, Bobi, Chanda, Mela and Nashpa fields.

During the period under review, OGDCL as part of preventive maintenance plan carried out Annual Turn Around of plants at Bobi, Qadirpur, Kunnar, Kunnar Pasahki Deep, Dakhni, Chanda, Uch and Sinjhor fields. In addition, production testing has been completed at wells; Suleman-2, Thal East-1, Thal West-1, Bitrism West-1A, Kunnar-11, Pasahki Deep-6 and Kunnar Deep-10 & 11. The commissioning of cathodic protection system at twenty four (24) wells of Kunnar Pasahki Deep and fifteen (15) wells of Uch-II project was also completed successfully.

Against the backdrop of natural decline in some of the mature hydrocarbon producing fields, OGDCL, during the fiscal year, 2015-16 recorded stable crude oil and gas production. The Company's gas production was influenced by less gas intake from Uch-I & II fields by Uch-II Power (Private) Limited during the months of January, February and March 2016 due to its Annual Turn Around and at Qadirpur field by Engro Powergen Qadirpur Limited and Liberty Power Limited owing to their shut-downs from 22 January 2016 to 30 April 2016 and 17 February 2016 to 14 March 2016, respectively. Moreover on account of SSGCL's increased pipeline pressure, gas production is affected at Qadirpur and Kunnar Pasahki Deep fields. Regarding LPG production, the Company witnessed surge mainly owing to startup of production from Sinjhor and Jakhro fields.

The average daily net saleable hydrocarbon production comprising crude oil, gas and LPG during the period under review, including share in both operated and non-operated joint venture fields is as under:

<b>Products</b>	<b>Unit of Measurement</b>	<b>FY 2015-16</b>	<b>FY 2014-15</b>
Crude oil	Barrels per day	40,609	40,818
Gas	MMcf per day	1,056	1,107
LPG	Metric tons per day	342	260

Going forward, OGDCL is confident that its vigorous exploratory endeavors accompanied with the expedited efforts for completion of ongoing development projects will lay a solid foundation to reap the reward of augmented oil and gas output in the future. In doing so, utilizing advanced technology, pursuing latest production techniques and enhancing engineering design and simulation capabilities will remain part and parcel of the Company's production boosting strategy leading to growth in production and distribution to the shareholders in the coming years.

### **Market Share Information from an Independent Source**

Being an industry leader in E&P sector, OGDCL boasts the highest share in exploration acreage, seismic data acquisition, oil and gas reserves and production volumes in comparison to other E&P companies operating in Pakistan. The Company's exploration portfolio comprises sixty (60) owned and operated joint venture exploration licenses covering an area of 112,453 sq. km, which represents 31% of the Country's total exploration acreage awarded as of 30 June 2016. Its 2D and 3D seismic data acquisition were 68% and 53% respectively of the total seismic data acquired in the Country during the year. Moreover, hydrocarbon reserves of the business accounted for 59% of oil and 36% of natural gas reserves in the Country as at 30 June 2015. Furthermore, the Company contributed around 48% and 28% of the Country's total oil and natural gas production, respectively during the period July 2015 - June 2016.

(Source: Pakistan Petroleum Information Services)

### **Development Projects**

OGDCL in line with its business strategy to augment hydrocarbon production and improve operational cash flows continued to make all out efforts for completion of its ongoing development projects including Kunnar Pasahki Deep-Tando Allah Yar (KPD-TAY), Sinjhor, Uch-II and Nashpa-Mela. These development projects are of significant importance as substantial addition in crude oil, gas and LPG production is expected upon their completion in the near future.

OGDCL's progressive efforts for completion of its ongoing development projects during the fiscal year 2015-16 are as follows:

#### **KPD-TAY Development Project**

KPD-TAY integrated development project is located adjacent to existing Kunnar LPG plant in district Hyderabad, Sindh province. OGDCL through use of in-house resources is engaged in completion of this project in two (2) phases. In this regard, phase-I of the project has already been completed, currently supplying around 1,000 barrels per day of condensate and 120 MMcf per day of dehydrated gas.

Under phase-II of the project, OGDCL has carried out installation of well head facilities, gas gathering system, CO<sub>2</sub> removal unit, LPG extraction feed/sales gas compressors, power generation and allied utilities. Moreover, work on 21 kms trunk line and EPCC installation coupled with mechanical and piping activities relating to sales gas compressors is completed and pre-commissioning activities have started. Phase-II of the project is expected to be completed during the month of August 2016 or in early September upon which production from combined phases I and II will be around 5,000 barrels per day of oil/condensate/NGL, 225 MMcf per day of gas, and 400 Tons per day of LPG.

#### **Sinjhor Development Project**

Sinjhor development project is located near district Sanghar, Sindh province. This project is a joint venture among OGDCL, OPL and GHPL having 62.5%, 15% and 22.5% working interest



respectively with OGDCL acting as the operator. By using in-house resources, the Company has carried out development of this field in two (2) phases. Phase II of the project was completed in July 2015. At present, total production from combined Phases I and II is around 2,600 barrels per day of crude oil, 30 MMcf per day of gas and 140 Tons per day of LPG.

### **Uch-II Development Project**

Uch gas field is located about 67 kms South East of Dera Bugti in Balochistan province. OGDCL is working to complete this project by employing in-house resources. The contractor has already been mobilized at site and development activities are in the final stages of completion. At present, 130 MMcf per day of gas under interim arrangement is being supplied to Uch-II Power (Private) Limited from one amine unit as per demand. Expected completion of the project, during the month of September 2016 will enable the Company to an operational capability of supplying upto 160 MMcf per day of gas to Uch-II Power (Private) Limited.

### **Nashpa-Mela Development Project**

Nashpa-Mela fields are located in Karak and Kohat districts of Khyber Pakhtunkhwa province. OGDCL is the operator of these fields with 56.45% share while joint venture partners include PPL and GHPL with 28.55% and 15% working interest respectively. The scope of this project involves the installation of well head compressors, crude stabilization unit and laying of 22 kms gas transport pipeline from Mela to Nashpa field. The tendering relating to EPCC and respective evaluation was completed and the contract was awarded to Hong Kong Huihua Global Technology Limited.

At present, the contractor has been mobilized at site and activities including construction of temporary site facilities and levelling and grading process of plant area and LPG bullet area are in progress. Moreover, pipeline to be laid from Nashpa to Mela field has been procured and tender to hire the services of contractor for laying, construction and commissioning of pipeline is under preparation. Currently, Nashpa-Mela fields are cumulatively contributing around 22,400 barrels per day of oil and 90 MMcf per day of gas. This development project is expected to be completed by June 2017 leading to an incremental production of 1,200 barrels per day of crude oil, 10 MMcf per day of gas and 380 Tons per day of LPG.

### **Non Operated Joint Ventures**

OGDCL holds working interest in various blocks operated by other exploration and production companies. The detail of the activities carried out in the Company's non-operated joint ventures during the fiscal year 2015-16 is as follows:

#### **TAL Concession**

TAL block is located in Khyber Pakhtunkhwa province and spreads over Karak, Kohat, Hangu, Bannu, North Waziristan and Orakzai agency areas. The concession is operated by MOL Pakistan with OGDCL, PPL and GHPL as joint venture partners. OGDCL has 27.76% working interest in TAL concession. To date, discoveries accredited to TAL concession include Manzalai, Makori, Mamikhel, Maramzai, Makori East, Tolanj and Mardan Khel. During the period under review, drilling at Tolanj West-1 and production testing at Makori Deep-1 continued while drilling at Makori East-5 has been completed. Moreover, civil work activities at Mardan Khel-2 & 3 and Maramzai-4 along with tie-in of Mardan Khel-1 with the production facilities remained under progress. At present, average daily production is 20,207 barrels of crude oil/condensate, 263 MMcf of gas and 432 Tons of LPG.

#### **Adhi Field**

Adhi oil field is located in district Rawalpindi and is operated by PPL with OGDCL and POL as joint venture partners. OGDCL holds 50% working interest in Adhi oil field. During the reporting period, drilling at Adhi-23, 24 & 25 has been completed while drilling at Adhi-27 remained

under way. Moreover, Adhi reservoir simulation study along with 3D seismic data and petrophysical interpretation continued during the year. The erection of Adhi plant-III is also completed and is in operation since November 2015. Currently, average daily production is 4,650 barrels of crude oil, 50 MMcf of gas, 1,950 barrels of NGL and 160 Tons of LPG.

### **Pindori Field**

Pindori field is located in district Chakwal, Punjab province and is operated by POL while OGDCL holds 50% working interest. The main productive reservoirs are fractured carbonates of the Eocene Sakesar formation and the Paleocene Lockhart formation. To date, eleven (11) wells are drilled including two (2) water injectors wells. Presently, two (2) wells are on production and contributing average daily production of 242 barrels of crude oil and 0.13 MMcf of gas.

### **Kadanwari, Bhit and Badhra Fields**

Kadanwari gas field is located in district Khairpur, Sindh province while Bhit and Badhra fields are located in district Dadu, Sindh province. ENI Pakistan is the operator of these fields and OGDCL possess a working interest of 50% in Kadanwari field and 20% each in Bhit and Badhra fields. In order to enhance the production from Bhit and Badhra fields, phase-II of compression project has been completed under which ten (10) booster compressors have been commissioned resulting in cumulative gain of 38 MMcf per day of gas. Moreover, drilling of a development well with potential of 25 MMcf per day of gas at Badhra field has been completed. During the year, average daily gas production for Kadanwari and Badhra fields is 45 MMcf and 112 MMcf respectively while Bhit field is contributing around 151 MMcf per day of gas and 262 barrels per day of condensate.

### **Badar Field**

Badar gas field is located in Kashmore, Sukkur and Ghotki, Sindh province and is operated by PEL with OGDCL holding 50% working interest. During the year under review, Badar-2 has been put on regular production and currently the field is producing on average 16 MMcf per day of gas.

### **Miano Field**

Miano gas field is located in district Sukkur, Sindh province and is operated by OMV Pakistan with OGDCL, ENI and PPL as joint venture partners. OGDCL holds 52% working interest in Miano field. During the period under review, drilling at Miano-19 has been completed and well is under production testing. Moreover, Miano TG-16 horizontal well has also been completed and feasibility study for tie-in possibility of the well is under progress. At present, there are eight (8) producing wells with average daily production of 83 MMcf of gas and 37 barrels of condensate.

### **Dhurnal, Bhangali and Ratana Fields**

Dhurnal, Bhangali and Ratana fields are located in district Attock and Rawalpindi in Punjab province. These fields are operated by OPL with OGDCL holding 20%, 50% and 25% working interest in these fields respectively. During the year, reprocessing of 119 sq. km of 3D seismic data and installation of jet pump at Dhurnal-2 remained under progress. The current average daily production of Dhurnal field is 200 barrels of oil and 1 MMcf of gas and Ratana field is producing 250 barrels of condensate, 6 MMcf of gas and 8 Tons of LPG.

### **Badin-II, Badin-IIR and Badin-III Fields**

Badin fields are located in district Badin, Sindh province and are operated by UEPL. OGDCL's working interest in Badin-II, Badin-IIR and Badin-III fields is 49%, 24% and 15% respectively. During the year, drilling of two (2) wells has been completed and average daily gross production from the Badin fields is around 1,063 barrels of oil/condensate and 8 MMcf of gas.

### **Sara and Suri Gas Fields**

Sara and Suri gas fields are located in district Ghotki, Sindh province and are operated by SEPL with OGDCL holding 40% working interest in each field. In order to commence production from shut-in wells, activities to tie-in Sara-4 with gas transmission facilities are in progress while arrangements are being made to procure and install compression facilities at Suri-1 & 2. Moreover, contract for reinterpretation of Sara-Suri 3D seismic data has also been awarded.

### **Indus-Offshore Blocks - S and U**

OGDCL holds 50% and 27.5% working interest in blocks S and U respectively. As of 30 June 2016, operator UEPL's request for an extension in the grant period of these exploration licenses remained pending with DGPC.

### **Offshore Block G**

Block-G is located in the Deep Offshore Indus Basin about 250 km from the coast of Karachi with water depths between 1,800 and 2,800 meters. The block is operated by ENI while joint venture partners include OGDCL and PPL. OGDCL holds a working interest of 33.33% in this block.

Within the Block-G, Kekra structure has been evaluated as "high risk-high reward", a promising carbonate buildup with more than 425 sq. km area. Currently, activities to spud-in exploratory well Kekra-1 have been deferred due to current slump in oil prices.

### **Contribution to National Exchequer**

OGDCL being the leading E&P Company of Pakistan made a significant contribution of Rs 81.640 billion to the national exchequer on account of corporate tax, dividend, royalty, general sales tax, gas infrastructure development cess and excise duty during the fiscal year 2015-16. In addition, the Company's oil and gas production continues to render significant foreign exchange savings in terms of import substitution.

### **Awards Conferred**

#### **Corporate Excellence Award**

OGDCL won the 31<sup>st</sup> Corporate Excellence Award (CEA) and was ranked first by the Management Association of Pakistan (MAP) in oil and gas sector for the third consecutive year. This award is given in recognition of the Company's outstanding performance and demonstrating progress and enlightened management practices during the fiscal year 2014-15. Chief Minister, Sindh the then Senior Minister of Finance, P&D, Energy and Irrigation, Government of Sindh, Mr. Murad Ali Shah presided over the MAP's 31<sup>st</sup> CEA ceremony and presented the award to Mr. Masood Nabi, Executive Director (Business Development & Joint Venture), OGDCL.

#### **Best Corporate Report Award**

OGDCL won the Best Corporate Report Award (BCR) for its Annual Report 2014, which was ranked second in fuel and energy sector by the Joint Committee of the Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan. The aim of BCR awards is to encourage and give recognition to excellence in annual corporate reporting. BCR Award 2014 was received by Mr. Irteza Ali Qureshi, CFO on behalf of OGDCL.

#### **Other Awards**

OGDCL in recognition of its activities relating to social responsibilities won the 5<sup>th</sup> Corporate Social Responsibility Award 2016. Apart from this, the Company on the basis of its

contributions and implementations in the field of fire and safety won the 6<sup>th</sup> Fire and Safety Award 2016.

### **Board of Directors**

OGDCL Board of Directors comprises twelve (12) directors including Chairman and Managing Director & CEO. Mr. Zahid Muzaffar serves as Chairman Board of Directors since 20 May 2014 while Mr. Zahid Mir is fulfilling responsibilities as Managing Director & CEO since 15 April 2015.

The present Board of Directors comprises of the following:

Mr. Zahid Muzaffar	Chairman
Mr. Arshad Mirza	Director
Mr. Saif Ullah Chattha	Director
Mr. Iskander Mohammed Khan	Director
Mr. Hamid Farooq	Director
Mr. Muhammad Ali Tabba	Director
Mr. Zafar Masud	Director
Prince Ahmed Omar Ahmedzai	Director
Sayed Shafqat Ali Shah	Director
Mr. Rahmat Salam Khattak	Director
Mr. Muhammad Yawar Irfan Khan	Director
Mr. Zahid Mir	Managing Director & CEO

### **Role of Chairman and Managing Director & CEO**

Positions of Chairman and Managing Director & CEO in OGDCL are headed by two separate individuals. Chairman is primarily responsible for running the Board and all matters relevant to governance of the Company where superintendence of the Board is necessary. Moreover, Chairman in consultation with the Board members formulate business policies and strategies and heads Board meetings including fixing the agenda of the meetings and overseeing Board evaluation.

Managing Director & CEO is involved in the management of day to day operations and procedures relating to operational, financial and other matters of the Company. Managing Director & CEO is also responsible for implementation of strategies and policies approved by the Board and making appropriate arrangements to ensure that the business resources are properly safeguarded and used economically, efficiently and effectively in accordance with the statutory obligations.

### **Board Structure and Committees**

OGDCL's Board structure is in accordance with the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013 issued by the Securities and Exchange Commission of Pakistan. Presently, the Company's Board comprises twelve Directors; nine (9) Independent Directors, two (2) Non-Executive Directors and an Executive Director.

In order to ensure effective implementation of sound internal control system and compliance with the Code of Corporate Governance, the Board has constituted various committees

including Human Resource & Nomination, Risk Management, Audit and Procurement, Operations & Finance.

### **Performance Evaluation: Board, Managing Director & CEO and Senior Management**

OGDCL's Board in accordance with the requirements laid down in the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013 carried out self-evaluation of the performance, capabilities and competencies. This evaluation exercise is undertaken on annual basis with the aim to enhance the efficiency and effectiveness of the Board. Moreover, performance evaluation of Managing Director & CEO and senior management is done by the Board against their targets and responsibilities.

### **Investor Relations (IR)**

OGDCL is aware of the fact that both its existing and potential stakeholders are interested in having access to strategic and operational information which could help them charter how the Company might perform going forward. In this regard, the Company's IR program serves to keep the investors and market participants informed of all the material information which could have an influence on the Company's share price. This information is simultaneously broadcasted to Pakistan Stock Exchange and London Stock Exchange, accurately and timely. Moreover, all such material information is regularly posted and updated on OGDCL's website ([www.ogdcl.com](http://www.ogdcl.com)) including share price related data with graphical representations, financial reports, conference call presentations with transcript, financial calendar and other important notices to keep shareholders abreast of all material developments of the Company.

In line with the international best practices, OGDCL maintains a regular dialogue with local and foreign institutional investors/fund managers and research analysts through meetings, presentations and conference calls on full and half year financial results. Personal communication is done through Annual General Meeting (AGM) and on dates of the presentation of annual results and half year results, whereby shareholders and research analysts interface with the executive management through conference calls. In addition, notice of AGM is circulated at least twenty one (21) days prior to the meeting along with dispatch of the Annual Report to all the shareholders within the stipulated timeframe.

### **Handling Investor Grievances**

In pursuance to OGDCL's mission of meeting expectations of the stakeholders through best management practices, enquiries from shareholders and analysts relating to OGDCL's operational and financial activities are welcomed and in response IR function strives to provide a prompt reply to those queries. Moreover, investor grievances are aptly handled and all out efforts are made to swiftly address their concerns, if any.

### **Share Price Sensitivity Analysis**

By the very nature of E&P business, OGDCL is exposed to various risks inherent in its core business of finding and developing oil and gas resources. Such risk factors may potentially impact the business share price and results of operations. In this regard, the key factors are as follows:

#### **Commodity Prices (Crude oil and HSFO)**

Changes in the international crude oil/HSFO price impact business revenue thus influencing the share price. The same is witnessed by the slump in international oil price which has impacted the business sales revenue and profitability.

#### **Operational Activities**

Share price responds positively to success achieved on operational fronts especially as a result of new oil and gas discoveries, enhancement of hydrocarbon production from owned

and operated joint venture fields and completion of development projects. Failures such as dry and abandoned wells and operational catastrophes may create a contrary effect on the share price.

### **Macroeconomic, Political and Security Environment**

Changes in macroeconomic factors such as growth in economy, low inflation and stable interest/exchange rates have a positive bearing on the business share price and vice versa. Moreover, political stability reduces the Country's risk premium and favorably affects the share price. Likewise, improvement in security situation enhances the E&P activities and reduces security related expenditures thus increasing the share price.

### **Regulatory and Licensing Regimes**

Improvement and stability in the regulatory regime and better pricing policies positively influence future earnings leading to a favorable effect on the share price.

### **Infrastructure and Technology**

Improvement in existing infrastructure and introduction of latest E&P technologies make it possible to reduce exploration and production costs and provide access to untapped hydrocarbon reservoirs. This creates future growth opportunities and positively impacts the share price.

### **Relationship and Engagement with Stakeholders**

OGDCL in adherence to highest standards of corporate governance and ethical consideration maintains strong and healthy relations with its stakeholders including shareholders, Ministries, Divisions and Departments/Directorates of Federal and Provincial Governments, JV partners, customers, suppliers, employees and local communities. The Company endeavors to build durable bonds with these stakeholders to stay connected, informed and engaged as a group.

OGDCL regulators include MP&NR, DGPC and other divisions and departments of Federal and Provincial Governments. The Company fully complies with their directives/guidelines relating to gas pricing, crude oil and gas allocation to refineries and gas distribution companies, concession management, etc. Regarding shareholders, the Company fully respects their confidence and trust reposed in the business and carries out regular dialogue with them through active Investor Relations, maintaining and updating material information on the organization's website and timely dissemination of the information to the stock exchanges.

OGDCL's workforce through its contributions and relentless efforts has played a pivotal role in making the organization a leading E&P Company of Pakistan. In this regard, the business is focused on safety and satisfaction of its employees in addition to ensuring that their hard work is recognized and valued. Moreover, the Company enjoys amicable relations with its joint venture partners and works alongside a number of E&P companies through production sharing contracts to explore, develop and produce oil and gas cost effectively in the Country. Likewise, the Company maintains positive relationships with its customers including crude oil refineries and gas distribution companies, suppliers and local communities with the aim to create long term sustainable value for mutual benefits of all the stakeholders.

### **Corporate Governance**

OGDCL being a listed Company adheres to the Code of Corporate Governance and all listing regulations to ensure business integrity and upholding confidence of all the stakeholders. Moreover, the Company is a public sector enterprise and operates under the framework enshrined in the Public Sector Companies (Corporate Governance) Rules, 2013. Overall superintendence of the Company vests with the Board of Directors which are accountable to the shareholders for good corporate governance while the management is responsible for day

to day operations, implementation of policies and disclosure requirements as envisaged in the Companies Ordinance, Rules, Regulations and the Code.

Specific statements to comply with the requirements of the Code of Corporate Governance are as follows:

- The financial statements prepared by the management present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
- The Board has complied with the relevant principles of corporate governance and has identified the rules that have not been complied with, the period in which such non-compliance continued and reasons for such non-compliance.
- The sound system of internal control is established and maintained which is regularly reviewed and monitored with ongoing efforts to improve it further.
- There are no doubts upon the Company's ability to continue as a going concern.
- The appointment of the Chairman and other members of the Board and terms of their appointment along with the remuneration policy adopted are in the best interests of the Company as well as in line with the best practices.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Information about outstanding taxes and levies is given in the notes to the financial statements.
- Value of investments, including bank deposits, of various funds based on the latest audited accounts as of 30 June 2015 are as follows:

Pension Fund	Rs 58,605 million
General Provident Fund	Rs 3,613 million

### **Formal Orientation and Continuous Professional Development Programs**

Orientation and briefing sessions remained a regular feature at OGDCL during the fiscal year 2015-16. Moreover, the Company continued its focus on imparting external training through professional institutions both local and foreign. During the reporting period, directors; Iskander Mohammed Khan and Rahmat Salam Khattak attended Directors' training program viz., Corporate Governance Leadership Skills organized by Pakistan Institute of Corporate Governance (PICG). Additionally, Zahid Muzaffar and Hamid Farooq are certified directors from SECP approved institutions. Furthermore, a workshop on Board Effectiveness organized by PICG is attended by the Company directors; Zahid Muzaffar, Iskander Mohammed Khan, Hamid Farooq, Zafar Masud, Prince Ahmed Omar Ahmedzai and Muhammad Yawar Irfan Khan.

## **Auditors**

The present auditors KPMG Taseer Hadi & Co., Chartered Accountants and A.F. Ferguson & Co., Chartered Accountants have completed their assignment for the year ended 30 June 2016 and shall retire on the conclusion of 19<sup>th</sup> Annual General Meeting scheduled to be held in October 2016. In accordance with the Code of Corporate Governance, Audit Committee considered and recommended the reappointment of KPMG Taseer Hadi & Co., Chartered Accountants and A.F. Ferguson & Co., Chartered Accountants, as joint statutory auditors for the fiscal year 2016-17. The recommendations of the Audit Committee are endorsed by the Board of Directors.

## **Internal Control and Audit**

Internal audit function serves as an effective appraisal of internal controls which ensure that methods and measures are in place to safeguard the business assets, monitoring compliance with the best practices of Corporate Governance, check the accuracy and reliability of accounting data and encourage adherence to prescribed rules and policies. In line with this function, OGDCL has an independent Internal Audit Department. The scope and role of the Internal Audit Department has been duly approved by the Company's Board. The role corresponds to the responsibilities envisaged for the internal audit function under the Public Sector Companies (Corporate Governance) Rules, 2013. Head of the Internal Audit Department functionally reports directly to the Audit Committee of the Board.

## **Human Resource (HR)**

OGDCL's coveted status as a "market leader in E&P sector of Pakistan" is attributable to its employees dedicated and consistent endeavors, extending over a span of many years. On this account, the Company highly values the importance of its human capital and regards it as a key business resource. During the year under review, the Company's prime focus remained on building productivity and capacity enhancement of its workers to seek operational excellence and accomplish organizational objectives in line with the business vision and mission statement. In addition, the Company's HR strategy continues to play a proactive role in embedding high performing culture in the organization hinging on business core values namely merit, teamwork, dedication, integrity, safety and innovation.

In order to carry on delivering performance with higher productivity, OGDCL focuses on maintaining transparency and meritocracy pertaining to its HR activities including employee induction, development, compensation, evaluation and promotion. Moreover to instill a sense of achievement and enhance motivation of the workers, the Company has brought effective changes and innovation in the system of performance management. Performance based awards are granted to inculcate competition and motivate the employees to take on further challenges in the years to come.

Apart from the above, OGDCL continues to promote diversity and equal employment opportunity coupled with providing a safe workplace free from discrimination, hostility and harassment, where rights to freedom of association and collective bargaining are respected. Any discrimination against or harassment of an employee based on age, gender, race, religion, creed, marital status, ethnic group, etc is regarded as violation of the business regulations and will result in disciplinary action as per the Company's rules.

As of 30 June 2016, OGDCL's manpower strength comprised a total of 9,376 employees working at Head Office, regional offices, field locations and other operational areas of the business. This strength is also inclusive of minorities, women and disabled employees working in the organization. Going forward, the Company is confident that its employees have the requisite skills to meet the challenges of the current business environment and continue



rendering improved operational performance to register new milestones and boost nation's energy supply.

### **Succession Planning**

OGDCL is focused on career growth and development of employees by ensuring that effective succession planning exists in the organization. This culture is preserved on account of making persistent efforts for development of a professional team and succession plans both short and long term for all critical positions coupled with imparting training to the successors. Skill enhancement workshops and appropriate management courses are regularly designed to train the successors to share the higher responsibilities.

### **Industrial Relations**

Management relations with the Collective Bargaining Agent continued to be friendly and industrial peace prevailed at all locations during the reporting period. Measures such as settlement of disputes and differences through bilateral negotiations, ensuring security of employment, provision of safe working environment and job satisfaction and maintaining continuous sympathy and understanding along with prompt dealing of cases relating to individual grievances preserved to ensure that relations between the workers and management remain cordial and conducive poised towards meeting business goals and objectives.

### **Code of Conduct: Business Ethics & Anti-Corruption Measures and Conflict of Interest**

OGDCL's Code of Conduct aims to ensure that the business operations are conducted in accordance with highest business ethical consideration complying with all statutory regulations and standards of good corporate governance. The code provides guidelines on fair employment practices, equitable treatment of the employees and procedures to report any failure to comply with the business regulations, financial malpractices, damage to business assets and actions which are likely to harm the reputation of the Company. The Code of Conduct promotes a culture of openness in which employees report legitimate concerns without the fear of any retaliation or punishment. The directors and employees adhere in letter and spirit to all laws and avoid conflict of interest, which if any (real or perceived) are to be notified to the Company immediately.

### **Training and Development**

OGDCL is cognizant of the role played by its skilled manpower in rendering industry leading performance in E&P sector of Pakistan. In this regard, the Company strives to provide regular training and professional development courses to its workforce with an aim to enhance their skills and knowledge and to keep them abreast of technological changes in oil and gas industry. Moreover, the Company's Oil & Gas Training Institute (OGTI) established in 1979 is equipped with well-established laboratories and other complimentary facilities thus effectively contributing in carrying out the training programs in a planned and organized manner.

OGTI provides basic training to the petroleum industry graduates and technicians enabling them to start their career in addition to arranging refresher courses and advanced training programs for experienced professionals in all streams of the petroleum industry in general and upstream in particular. Training programs are being offered ranging from technician to management level in the fields of Exploration, Reservoir Management, Drilling, Production and Processing activities. In addition, the institute imparts education and training with respect to Health, Safety and Environment, Information Technology and Management. These training programs are developed and delivered by renowned trainers both from within OGDCL and other companies - indigenous and foreign.

During the fiscal year 2015-16, a batch comprising Geophysicists, Geologists, Data Acquisition Engineers, Wire Line Logging Engineers and Mud Logging Engineers has successfully

completed one (1) year training program at OGTI. This program was a delicate mix of classroom and on-job training which included course work and on-job attachments to provide practical exposure to the trainees. Additionally, OGTI successfully conducted 68 refresher training programs in the form of technical courses and workshops. Most of these training programs were arranged at the institute and some at field locations to facilitate the participants. About 1,200 professionals from OGDCL and other E&P companies participated in these programs. Furthermore, OGTI processed cases of 128 professionals relating to foreign training and visit and provided summer internships to more than 600 students from various universities. Besides this, attachments were offered to fresh graduates, who recently completed their education.

### **Corporate Social Responsibility (CSR)**

In line with its mission to be a socially responsible corporate citizen, OGDCL not only deems community development as an ethical, moral and social responsibility but the same is also reflected in the conduct of business operations. The Company's extensive social welfare program tasks at supporting and sustaining the communities residing in the business operational areas by the way of making investment in the domains of education, health care, water supply, infrastructure development and generous donations. While undertaking such poverty alleviation efforts among the marginalized communities, the Company continues to discharge its social welfare obligations under respective Petroleum Concession Agreement.

A brief of CSR activities carried out during the fiscal year 2015-16 is as follows:

#### **Education**

OGDCL during the year carried on with its role to uplift the educational level among the most deprived communities. In this regard, the Company's CSR activities include:

- In collaboration with the Institute of Business Administration (IBA) Karachi and Sukkur launched its first National Talent Hunt Program for the students hailing from the backward areas. This program offered free scholarships to the students selected on merit and in this respect the Company plans to contribute Rs 111.23 million to IBA Karachi and Rs 77.72 million to IBA Sukkur in a period of five (5) years and four (4) years respectively;
- Introduced National Internship Program under which 300 graduates for one (1) year internship were selected from all four provinces of the Country;
- Provided financial support to the Family Education Services Foundation amounting to Rs 3 million for grant of scholarships to the special students of Deaf Reach School Sukkur, Sindh;
- Provided scholarship worth Rs 7.5 million to local students for completion of three (3) years diploma program at Technical Training College Daharki, district Ghotki, Sindh;
- Construction of two (2) class rooms at Government Primary School Alwargi Banda Nashpa, district Karak, Khyber Pakhtunkhwa costing Rs 1.13 million and construction of one (1) class room coupled with providing computers at Higher Secondary School Chanda Khuram, district Karak, Khyber Pakhtunkhwa;
- Provided financial assistance for construction of class room and school furniture totaling Rs 1.4 million to Jarwar Bridge School Uch, district Dera Bugti, Balochistan; and
- Provided uniform and necessary school items to the poor students of Government Primary School Maru/Reti, district Ghotki, Sindh and furniture, computers and other school items for Boys and Girls School Dhudial, district Chakwal, Punjab.

#### **Health**

OGDCL's CSR activities in relation to health and medical facilities during the reporting period are as follows:

- Provided fully equipped ambulances amounting Rs 8 million to Tehsil Head Quarter Hospital Jand, district Attock, Punjab and Civil Hospital Shakardara, district Kohat, Khyber Pakhtunkhwa;
- Organized free medical camps relating to skin diseases for the local communities residing in Kunnar, Bobi, Sinjhor, Qadirpur and Tando Alam Oil Complex fields;
- Established mobile medical setup to provide health care facilities to the patients of remote villages at Qadirpur field, district Ghotki, Sindh;
- Donated X-ray machine to Basic Health Unit Halepota, district Hyderabad, Sindh;
- Provided donation to Al-Shifa Eye Trust Hospital Rawalpindi, Punjab for its outreach program in the areas of Khyber Pakhtunkhwa and Southern Punjab; and
- Provided financial support for countering dengue to the locals of Kohat district, Khyber Pakhtunkhwa and non food item kits to Pakistan Red Crescent Society at district Nasirabad, Balochistan.

### **Supply of Clean Drinking Water**

OGDCL continued to supply clean drinking water through water tankers and bouzers to the locals of Loti, Pirkoh, Tando Alam, Daru, Sari/Hundi, Rajian, Chak Naurang, Dhodak, Chanda and Nashpa fields. Installation of water hand pumps has also been carried out at different villages near Kunnar, Pasahki and Nashpa fields during the year. Moreover, the Company by incurring a cost of Rs 2 million completed water supply scheme at Killi Kalli, district Dera Bugti, Balochistan. In order to check availability of water in the areas of Loti and Pirkoh, water resistivity survey has also been carried out.

### **Donations and Financial Assistance**

Being the national oil and gas Company, OGDCL has always played a proactive role to provide relief activities to the victims of national calamities in addition to making significant contributions for the national cause purpose. In this connection, steps taken by the Company during the year under review include:

#### **Flood Relief**

OGDCL timely moved to provide relief to the flood affected people in the areas of Ghotki and Khairpur districts of Sindh. The Company donated an amount of Rs 2 million and distributed medicines and food hampers/dry rations to the needy people. Moreover, flood relief activities were carried out in the areas of Kot Addu, Muzaffargarh and Garh Maharaja, Punjab by providing medicines, food hampers and drinking water to the flood affectees at a total cost of Rs 1.65 million.

#### **Empowering Women**

As a goodwill gesture towards empowering the community particularly women, OGDCL distributed sewing machines among the poor and needy women in the areas of Toba Tek Singh, Tona Nokhani, Zin, Dera Bugti and Maru Reti. The Company believes that this donation will contribute to self-employment of women enabling them to earn their livelihood.

#### **Donations to promote Sport Activities**

OGDCL contributions towards promoting sport activities include:

- Provided financial support for Centre for Advanced Studies School Karachi for participation in Rowing International Championship, Singapore;

- Donated Rs 5 million and Rs 2.45 million to the Frontier Corp, Quetta and Frontier Constabulary for organizing T20 Ramzan-ul-Mubarak cricket tournament and Golf Championship respectively;
- Sponsored 1<sup>st</sup> Flood Light Hockey tournament organized by Pakistan Hockey Federation, football tournament at Jand, district Attock, Punjab, 3<sup>rd</sup> Prime Minister Blind T20 cricket tournament and 3<sup>rd</sup> football tournament at district Kohat, Khyber Pakhtunkhwa with an amount of Rs 10 million, Rs 2.50 million, Rs 1.6 million and Rs 0.88 million respectively; and
- Also sponsored, National Motorsports Desert Challenge Rally at Jhal Magsi, Balochistan and spring and cultural sports festivals at Sibi and Qadirpur.

## **Health, Safety, Environment and Quality (HSEQ)**

### **Occupational Health, Safety and Environment Initiatives**

On account of being a safe operator and responsible corporate citizen, OGDCL attaches great importance to HSE Management System with a view to foster a culture of compliance towards safety and wellbeing of the manpower, community and environment. The Company resolutely believes that responsibility for health, safety, and environment cannot be delegated but is in fact a shared responsibility ultimately leading to business growth. While carrying out E&P activities, the Company ensures that welfare of the local communities, protection of ecosystems and safety of workforce remains a business priority.

In pursuance to sustainable mechanisms for safeguard of environment, OGDCL complies with Pakistan Environment Protection Act 1997 and strictly adheres to the rules and regulations promulgated for protection of the environment. Initial Environment Examination and Environmental Impact Assessment are part and parcel of the business operations and no project is initiated without acquiring No Objection Certificates (NOCs) from the respective Environmental Protection Agency (EPA).

During the year under review, OGDCL participated in 2nd International Summit on Environment, Health, Safety and Security and in recognition for its remarkable efforts in HSE activities has been awarded with a souvenir. Moreover, the Company in recognition of the arrangements for fire prevention and safety received Fire and Safety Award 2016 by National Forum for Environment and Health.

### **Consumer Protection Measures**

OGDCL continues to ensure that its business products supplied to the markets, consumers and other stakeholders are properly processed and bear minimum (allowable) potential for pollution. In order to mitigate unwanted and hazardous impact of gases, absorbents, scrubbers and desiccants/molecular sieves are utilized to guarantee continuous quality conscious operations at the fields and plants. In addition, it is ascertained that the remaining traces of gases are burnt in accordance with the international practice in the controlled-flare.

### **HSE - key activities**

OGDCL key HSE activities during the reporting year are as follows:

- I. Promulgated Risk Management Policy and Framework and launched a comprehensive program to train and aware employees of the key business risks. Moreover, risk management exercise has been conducted at all fields and major risks have been identified at grass root level. Top ten (10) corporate risks have been presented to the Board of

Directors which are being controlled/managed as per directions of the Risk Management Committee;

- II. To ensure top level commitment with respect to health, safety and environment, a meeting to devise a framework for implementation of HSE SOPs guidelines and bring cultural change is held between Managing Director & CEO and all the HSE engineers at OGDCL House;
- III. In addition to ISO certifications for its Dhodak and Qadirpur fields, the Company has achieved ISO 14001 and OHSAS 18001 certifications for Dakhni and Chanda/Mela fields;
- IV. Became the first Company in Pakistan to introduce a newly emerged technology namely Floating Treatment Island/Wetland (FTW) which is used to treat waste water in an environment friendly, cost-effective and efficient manner. This is done through soil-less plantation by integrating agronomy and ecological engineering, whereby regionally suitable vegetation is trapped in self-buoyant mats to construct artificial floating wetlands;
- V. Acquired more than 40 NOCs from all the four provincial EPAs after fulfilling the requirements and submission of comprehensive environmental reports;
- VI. Distribution of safety bulletin amongst the employees and stakeholders to keep them well versed with HSE activities and new techniques. Incidents along with their detailed reports were also shared through safety bulletin to avoid the recurrence of same nature of incidents in the future;
- VII. Safety Audit of OGDCL House has been carried out in accordance with the Capital Development Authority bye laws for high rise buildings and all international applicable laws pertaining to fire and safety, electricity, etc. Safety Audits of different fields were also conducted using in-house competency of HSE professionals;
- VIII. To create awareness through involvement of employees and local community, HSE awareness events were organized at field locations. In view of the fact that health, safety and environment protection is a shared responsibility, all the workers participated in these events; and
- IX. Officials from various operational departments of the Company received training in the following areas:
  - a. Hazard Identification, Risk Assessment and Risk Control
  - b. HSE Auditing – based on ISO 14001 & OHSAS 18001 standards
  - c. Accident prevention and Investigation through Root Cause and Failure Analysis
  - d. Fire fighting and Rescue Techniques

### **Major Energy Conservation/Emissions Control Project**

With an aim to monitor the impact of OGDCL operations on the environment, Ambient Air Monitoring of the major fields has been carried out during the year. While emissions at most of the locations were within the range, required modifications were made where the results were beyond National Environment Quality Standard limits. Carrying out Ambient Air Monitoring has now become a permanent feature at the Company's fields/locations, which is done on quarterly basis.

Moreover, optimization of process parameters has been achieved at Qadirpur field through monitoring of fuel and chemical usage and preemptively addressing and troubleshooting heating/cooling systems, whereby energy conservation and saving opportunities are directly or indirectly linked with the results of the heat volume balance. Extensive pragmatic plants have also been developed to ensure prudent utilization of energy resources at key installations like Dakhni, Nashpa, Sinjhor, KPD-TAY and Uch fields. Furthermore, in view of the increasing oil

and gas requirements in the Country, the Company is working to install solar systems to meet the energy deficiency and conserve oil reserves of the business.

### **Energy Saving Measures**

Energy saving measures carried out at fields and offices through application of 4Rs philosophies; Reduce, Reuse, Recycle and Repair are as follows:

- I. Replacement of conventional lighting with LED lights;
- II. Installation of solar systems;
- III. Timely maintenance of engines and turbines to avoid incomplete combustion and wastage of fuel;
- IV. Predictive maintenance of machines based on condition monitoring to avoid efficiency drop;
- V. Proper insulation of pipelines and air ducts and use of heat tracing cables;
- VI. Decanting and secondary containment systems for condensate/crude oil, diesel and chemicals;
- VII. Replacing lights with low energy lamps or solar lights where feasible and using intelligent lighting controls;
- VIII. Reuse of oil based mud during drilling operations;
- IX. Bioremediation of oil spills, oil based drill cuttings and oily sludge to rehabilitate soil; and
- X. Use of FTW technology to treat waste water in an environment friendly and cost effective manner.

### **Information Technology**

OGDCL as part of its technology modernization plan continued to undertake system development activities to carry out the business processes efficiently and effectively. Steps taken during the fiscal year 2015-16 include:

#### **Deployment of Wi-Fi solution**

Existing cable networking has been replaced by an enterprise grade secure Wi-Fi solution at Head Office offering high network connectivity for business applications. This system has true mobility and is protected through an inbuilt robust firewall.

#### **Information Security Management System Audit**

An internal security assessment of the Company's data center has been carried out by Solutions Tech Pakistan to ensure that the data center is established and implemented in accordance with international best practices and standards. A comprehensive report in this regard is submitted by the consultant highlighting critical, medium and low level vulnerabilities. Responding to the high level vulnerabilities, remedial actions have been performed by the Company.

#### **Revamping of Data Center**

As a result of Information Security Management System audit, revamping of data center has been carried out by installing Internet Protocol based cameras, smoke detectors, Access Control System and centralized system for monitoring humidity and fire. Similarly, expansion for storage related to Microsoft Exchange and Microsoft SharePoint Infrastructure is added in the data center by increasing its capacity from 12 to 24 terabyte.

#### **Deployment of Infrastructure for Applications**

Infrastructure for applications including Maximo (Maintenance Management System), Medical Management System and Fund Management System has been successfully configured

coupled with providing data center facilities for running these applications. In addition, blade servers have been re-configured as per requirement.

### **Integration of Tape Library with Microsoft Exchange Infrastructure and Revision of Backup Policy**

Integration of existing TS3200 Tape Library has been made with Microsoft Exchange Infrastructure along with revising the backup policy. Moreover, off-site backups on IBM LTO Ultrium cartridges are being maintained for email databases and archive databases.

### **Computerized Maintenance Management System**

Computerized Maintenance Management System has been implemented at the Company's two (2) major fields namely Qadirpur and Dakhni. It is an IBM Maximo Asset Management solution that manages physical assets on common platform allowing organizations to share and enforce best practices. Moreover, it is helpful for reducing corrective maintenance. Moving on, the Company plans to implement this system at Sinjhor, KPD and Uch fields.

### **Medical Management System**

Medical Management System integrated with ERP system has been successfully implemented in the Company. Its main features include maintenance of employee/pensioner medical history and monitoring of medical expenses.

### **Document Management System**

The Company has developed its own Document Management System using the SharePoint Portal. This system has the capability for archiving of important digital data including policies, procedures, SOPs contracts, etc. Moreover, training session has been arranged to equip the employees with basic knowledge of the system and enable them to carry out the routine functions; upload, retrieve and access the documents.

### **Production Database Management System**

The Company is carrying out up gradation of the existing Production Data Management System for efficient management of the production data and sales record of oil, gas, LPG, NGL and sulphur. This system is planned to be integrated with different reservoir management software in addition to fulfilling the function of information dissemination to the concerned personnel, departments, joint venture partners and government bodies including Ministry of Petroleum and Natural Resources and Directorate General of Petroleum Concessions.

### **Up-gradation of Oracle ERP**

The Company implemented ERP system in 2003, which at present requires up-gradation in order to meet the future business requirements. In this regard, review and revamp exercise of the current ERP business processes is planned by carrying out an extensive review of installed processes, identification of gaps and detailed requirement analysis.

### **Business Continuity Plan**

OGDCL's risk management policy ensures business continuity and sustainability thus endorsing the business going concern. The objective of risk management policy is to identify hazards, assess the risks and implement effective control measures to prevent or reduce the likelihood of their occurrence to as low as reasonably practicable. In line with this policy, the Company has a well-defined and extensive Emergency Response Procedures in place at all field locations and operational areas to avoid business disruptions in worst case scenarios. The Company has also established a Disaster Recovery Site for ERP applications at National Telecommunication data enter, Islamabad to retrieve the data in the case of catastrophic consequences. Moreover, strengthening of business contingency plans through arranging training sessions, mock exercises and HSEQ awareness events are a regular feature at the Company.

## **Business Risks and Mitigation Measures**

OGDCL's core business activities task at locating, acquiring, developing and commercially producing oil and gas reserves. However, such activities are speculative in nature and are characterized by inherent uncertainties, geological surprises and complexities which may have a potential impact on the business financial conditions and results of exploration, production and development operations.

In order to cope up with business risks, OGDCL has in hand effective risk management strategies and proactive risk mitigation techniques which play an imperative role to accomplish the strategic objectives and protect the business assets, personnel and reputation. Moreover, the Company's Risk Management Committee functions to identify and mitigate the potential impact of the risks and ensure quality decision making by timely assessing, treating and monitoring the broad spectrum of the risks which may occur while carrying out E&P activities.

OGDCL's business risks are likely to change subject to modification in the business strategy and changes in the external environment. At present, risks and uncertainties which are believed to be material in nature coupled with their mitigation techniques are as follows:

### **Strategic Risk**

OGDCL's strategy aims at optimization of business portfolio and sustaining production growth in a cost effective manner leading to improved profit margins. Going forward, the Company in an effort to find and develop oil and gas prospects cannot guarantee maintenance of high drilling success and effective execution of low cost strategy. Responding to the risk of strategic failure, the Company focuses on utilizing latest production techniques, advance reservoir management practices and modern technology to exploit new reserves and boost production while ensuring its low cost operator status. Additionally, the Company renews and repositions its exploration portfolio to embark upon future growth opportunities and increase shareholders value.

### **Commercial Risk**

On account of operating in an energy deficient Country, OGDCL's hydrocarbon production is readily absorbed in the indigenous market thus bearing no risk relating to sale of products. However, following factors may unfavorably influence the Company's financial stature:

#### **Commodity Price Risk**

Crude oil prices in Pakistan are linked to a basket of Middle East crude oil prices which are calculated by taking into account average basket prices of Oman, Dubai and Das Blend. Any volatility in the prices of the crude oil has a significant influence on OGDCL's financial performance. In this respect, financial results witnessed across the sector during the year under review were sobering reminders of the challenges low commodity prices pose to sales revenue and profit margins.

However, OGDCL's gas sale is less prone to price risk as the gas prices of major fields are capped at fixed crude oil/HSFO prices and sales revenue is only affected provided international crude oil prices fall below the capped price. Against the backdrop of decline in the international oil prices, the Company will continue managing its costs and preserving capital flexibility while stepping up the exploratory efforts to discover new hydrocarbon reserves and augment oil and gas production leading to increased operational cash flows in the coming years.

#### **Foreign Currency Risk**

As OGDCL's functional and reporting currency is Pak rupees, the business is exposed to foreign currency risk with respect to crude oil and gas prices which are determined in US



dollars and translated into Pak rupees using exchange rate established by the regulatory authority. Therefore, any decline in the value of Pak Rupee against US dollar has a positive impact on the Company's earnings and vice versa. While currency risk arising due to foreign currency payments made for purchase of material, equipment and hiring of third party services is neutralized by natural hedging provided by the Company's pricing mechanism.

### **Credit Risk**

Against supply of crude oil and natural gas products, significant trade debts are payable to OGDCL by crude oil refineries and natural gas distribution companies respectively. Settlement of such debts has been slow which resulted in the creation of Inter Corporate Circular Debt issue in the energy industry. Against this risk, OGDCL's management during the year under review continued to undertake all possible measures including vigorous follow-ups and constant liaison with Government of Pakistan to recover outstanding receivables and avert liquidity problems. Moreover, Government of Pakistan is also pursuing for satisfactory settlement of Inter Corporate Circular Debt issue and on this account the Company considers this amount to be fully recoverable.

### **Financial Risk**

OGDCL's debt free balance sheet is reflection of the fact that currently the business is not exposed to any financial risk. However, delay in settlement of trade debts can put the business cash position and financial standing in jeopardy. Prolonged nonpayment of trade debts by crude oil refineries and gas distribution companies may trigger the need for borrowing in order to carry out planned exploration, production and development activities/projects alongside ensuring timely discharge of statutory obligations including royalty, taxes/duties, dividend, etc.

### **Reserves Risk**

Crude oil and gas reserves data are only estimates and the actual quantity of recoverable reserves may differ from the estimated proven and probable reserves. In order to cope up with this risk, OGDCL internally evaluates and update reserves on quarterly basis based on the production performance, workover jobs and development wells results of individual fields. Also for verification/up-dation of the reserves status, the Company arranges reserves evaluation study in its owned and operated joint venture fields which is carried out by an independent international expert after every three (3) years.

### **Operational Risk**

OGDCL operational activities may be exposed to the following risks:

#### **Exploration, Drilling and Production Risk**

The risks and hazards inherent in OGDCL's operational activities include well blowouts, explosions, uncontrollable leaks, down hole fires, oil spills, mechanical failures, adverse weather conditions, etc. Such risks may result in substantial losses in the form of injury to workers, loss of life, severe damage to property, plant and equipment, production loss, pollution and suspension of operations thus adversely affecting the business earnings and growth. In order to mitigate these risks, OGDCL focuses on routine check-ups and repair and maintenance of plant and machinery in addition to maintaining an insurance coverage in line with the customary industry practices against some of the potential operational risks.

In addition to the above, drilling of exploratory wells involve the risk that no commercially productive oil or gas reservoirs will be encountered. Moreover, exploration and production activities are often conducted in extremely challenging environments which heighten the risks of technical integrity failure and natural disasters. Furthermore, exploring and developing oil and gas fields is a capital intensive activity requiring sufficient cash flows to finance the

operations. The Company counters such risks by maintaining a strong financial discipline and formulation of strategic alliances with other E&P companies having technical expertise and complementary skills to carry out the operations cost effectively and skillfully.

### **Environmental Risk**

Environmental risks relate to natural disasters in shape of earthquakes, cyclones, floods and other such events which cause the business operations to disrupt or be curtailed. OGDCL in this regard covers all insurable risks through insurance besides maintaining a contingency fund to cover uninsured damages.

### **Security Risk**

Security risk is in shape of insurgency and political instability which adversely influence the business operations causing threat to lives of the workers in affected operational areas, suspension of business activities, production limitations, etc. OGDCL is exposed to such risks particularly in the provinces of KPK and Balochistan. In this respect, the Company relies on a well thought-out plan for curbing or neutralizing potential security threats and collaborates with law enforcement agencies to deploy security personnel in the sensitive areas for protection of the workers and operational facilities.

### **Competitive Risk**

While award of the exploration licenses is done on a competitive basis in the Country, OGDCL being a public sector entity does not enjoy any preferential treatment or relaxation of any sort in bidding for new exploration areas. Moving on, the Company may face increased competition in gaining access to new exploration licenses and utilization of advance equipment and technology by the competitors to more efficiently explore and develop oil and gas fields. To cope up with this risk, the Company based on its quality asset base, capable workforce and commitment to utilize innovative technology and latest production techniques will continue to compete on merit for acquiring new concessions and successfully discharge agreed work commitments as per respective petroleum concession agreement.

### **Risk Management Policy and Business Continuity Plan**

OGDCL's risk management policy and steps taken to ensure business continuity are given below:

#### **Risk Management Policy**

OGDCL recognizes that an effective system of risk management and internal control is critical for its business success. The Company is committed to managing risks in a manner consistent with the business practices in order to:

- Protect its people, communities, environment, assets and reputation;
- Ensure good governance and legal compliance; and
- Enable it to realize opportunities and create long-term shareholder value.

OGDCL's Board of Directors oversee the risk management and control framework of the Company to ensure an appropriate control environment is established and maintained, spanning business operations, financial reporting and compliance activities. The Audit and Risk Management Committees assist the Board in fulfilling its responsibilities by reviewing and monitoring financial and reporting matters and the Company's risk management and internal control processes.

Management will be responsible for implementation of this policy through the following:

- Formulation of Risk Management SOPs;
- Identification of risks and recording of these risks on risk register;
- Use of appropriate and relevant risk management techniques and methodologies to analyze and quantify risks;
- Determination of mitigation/or action plan for identified risks;
- Regular assessment of risks by Risk Management Committee of the Board; and
- Allocation of necessary and appropriate resources in support of risk management.

Identification and communication of vulnerabilities and changes to OGDCL's risk profile are an integral part of day-to-day management. In addition, all personnel are encouraged to identify and manage risks on a continual basis so as to develop a "risk aware" culture and an environment of continuous improvement.

### **Future Outlook**

In the wake of dramatic fall in the oil prices which has made a massive impact on the profitability of the oil and gas sector resulting in many upstream companies scaling back their capital expenditures, OGDCL being the largest E&P Company in Pakistan believes that maintaining a conservative financial framework and exercising cost control will be cornerstone of the business long term strategy to optimize oil and gas reserves and remain competitive in the market. While doing so, the Company will continue to exploit its low cost operator status and take advantage of reduced cost of suppliers and oilfield service companies to step up its intensified exploratory activities leading to production enhancement and increase in business value in the coming years. This is testified by the fact that the business has set an ambitious target for 2D and 3D seismic data acquisition of 6,908 Line km and 1,130 sq. km, respectively during the fiscal year 2016-17. In parallel, the Company is committed to gear up processing and reprocessing of the acquired data to identify prospective areas offering the potential to yield commercial oil and gas reserves.

While pursuing enhanced exploratory activities, OGDCL will remain focused to ramp up its production operations from owned and operated joint venture fields and address energy challenges in the Country. To achieve production growth, the Company will continue to focus on seamless development of new discoveries in shortest possible time in tandem with utilizing advance reservoir management practices and state of the art oil recovery methods to maximize hydrocarbon recovery from mature fields. Additionally, workover jobs at wells and Annual Turn Around of plants will remain part and parcel of the business strategy to keep production operations effective. Moreover, vigorous efforts will be made to expedite the activities pertaining to ongoing development projects, which upon completion in near future are expected to yield substantial enhancement in crude oil, gas and LPG production. It is worth mentioning that exhibition of such efforts during the year under review led the Company to report addition of 5,700 barrels per day of crude oil and 40 MMcf per day of gas through injection of new wells in the business gathering system, completion of phase-II of Sinjhor development project and record the largest contribution of 48% and 28% of the Country's total oil and natural gas production, respectively.

In order to cope with the suppressed oil price environment, the Company is focused on formulation of joint ventures with leading E&P companies both within the Country and abroad in an endeavor to introduce new partners with complementary skills and ensure ventures and projects remain value driven. Moving on, the Company will carry on efficient deployment of capital in all its operational areas accompanied with maintaining prudent cost control strategy which will not only contribute in carrying out exploration, development and production operations viable and competitive but at the same time would enable the business to encounter future business challenges in a well-organized and proficient manner. In pursuance to these

strategies, OGDCL despite the uncertain oil price outlook is optimistic that its fast track exploration activities, solid financial structure and robust pipeline of ongoing development projects would lay a strong foundation to reap the long term benefits of continued business sustainability and return maximum value to shareholders by embedding highest safety standards and social responsibility in the core business operations.