

Annual Report 2008

# FUELING THE FUTURE



**Oil & Gas Development Company Limited**

Oil & Gas Development Company Limited (OGDCL) is the largest Exploration & Production (E&P) Company in Pakistan, listed on all the three stock exchanges of Pakistan as well as on London Stock Exchange.

Company's strategy is to maintain balanced growth through:

- Acquisition of new exploration acreage
- Maintaining and enhancing production from existing fields
- Expeditious production from new discoveries
- Joint venture opportunities outside Pakistan





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Form of Proxy

Entry Card





## Highlights of the Year

### Corporate Highlights

- OGDCL has been ranked amongst the "Top Twenty Five Companies" on the Karachi Stock Exchange (KSE) for the fourth consecutive year (2004 to 2007).
- OGDCL's Annual Reports for the years 2006 and 2007 have been placed in the list of winners of the Best Corporate Reports Awards evaluated by the Joint Committee of Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP).
- OGDCL was ranked first in the category of top performing companies by volume of donations for giving the largest amount of donations for social development and was conferred with Pakistan Corporate Philanthropy Award.
- Acquisition of two new Exploration Licenses namely Shaan in Balochistan and Eastern Offshore Indus-A over an area totaling 4,989.80 Sq. Kms.

- Grant of four new Development and Production / Mining Leases namely Bahu, Kunnar Deep, Kunnar West and Pasahki Deep.

### Operational Highlights

- Five (5) oil, gas/condensate discoveries namely Moolan-1, Pasahki East-1, Moolan North-1, Pakhro-1 and Dhodak Deep-1 were made by the Company.
- Reserves addition of 3.27 million barrels of oil and 122 billion cubic feet (Bcf) of gas.
- Crude oil production (net) on working interest basis averaged 43,434 barrels per day (BPD).
- Gas production (net) on working interest basis averaged 976 MMcf per day (MMcfd).
- LPG production (net) on working interest basis averaged 339 M. Tons per day.
- Seismic acquisition of 2,889 L. Kms of 2-D and 1,067 Sq. Kms of 3-D.

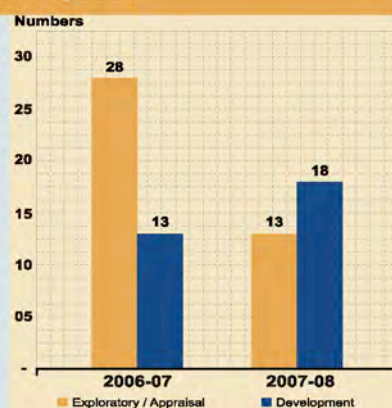


- 31 new wells including 13 Exploratory / Appraisal and 18 Development wells spudded during the year.
- Commencement of production from Chak 66-NE, Moolan North-1, Qadirpur-29, 30 & 31, Thora-6, Tando Alam-16A, 17, 19 & 20, Kunnar-7, Mela-2 and Dakhni Deep-2.
- Earnings per share increased to Rs 11.54 (2006-07: Rs 10.61).
- Dividend increased to Rs 9.50 per share (2006-07: Rs 9.00 per share).
- Total assets increased to Rs 150.6 billion from Rs 129.3 billion.
- Contribution to national exchequer increased to Rs 99.4 billion (2006-07: Rs 78.1 billion).

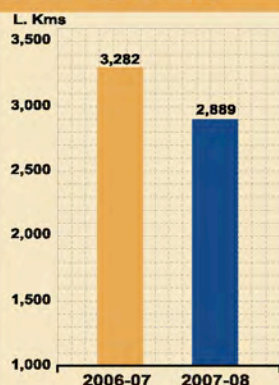
## Financial Highlights

- Sales revenue increased by 25.1% to Rs 125.4 billion (2006-07: Rs 100.3 billion).
- Net realized prices of crude oil and gas averaged US\$ 71.29 / bbl and Rs 142.13 / Mcf respectively (2006-07: US\$ 51.86 / bbl and Rs 144.12 / Mcf).
- Profit before tax rose by 36.5% and profit for the year by 8.7% to Rs 83.4 billion and Rs 49.6 billion respectively (2006-07: Rs 61.1 billion and Rs 45.6 billion).

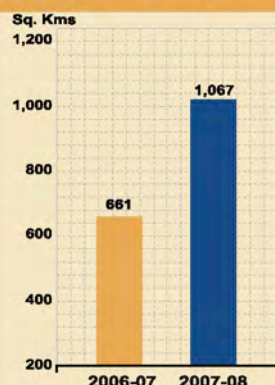
### Wells Spudded



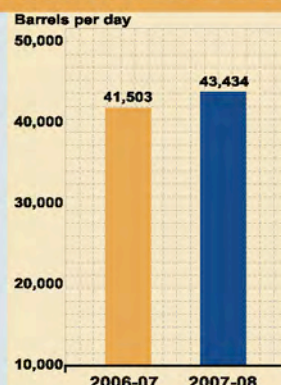
### 2D Seismic Survey



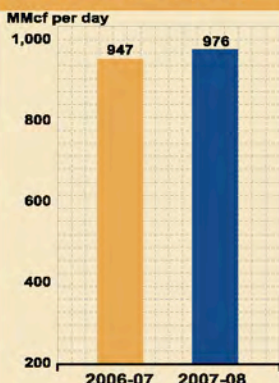
### 3D Seismic Survey



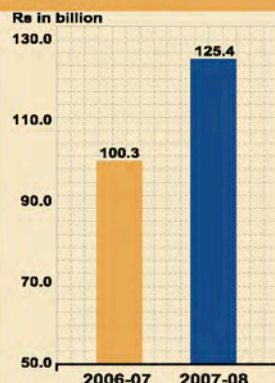
### Crude Oil Production (Net)



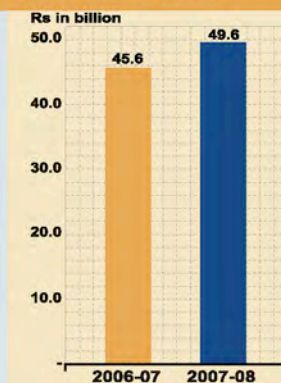
### Gas Production (Net)



### Sales Revenue



### Profit for the year





## Notice of Annual General Meeting

Notice is hereby given that the 11th Annual General Meeting being Twentieth meeting of the members of Oil and Gas Development Company Limited will Insha-Allah be held at registered office of the Company, OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Jinnah Avenue, Islamabad on Monday, September 29, 2008 at 10.00 a.m. to transact the following business:

### ORDINARY BUSINESS

- 1) To confirm the minutes of the 10th Annual General Meeting held on September 28, 2007.
- 2) To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2008 together with the Directors' and Auditors' Reports thereon.
- 3) To approve the final cash dividend @ 35% i.e. Rs 3.50 per share for the year ended June 30, 2008 as recommended by the Board of Directors. This is in addition to three interim cash dividends totaling to 60% i.e. Rs 6.00 per share already paid during the year.
- 4) To appoint auditors for the year 2008-09 and fix their remuneration. The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s M. Yousuf Adil Saleem & Co., Chartered Accountants will stand retired on the conclusion of this meeting.
- 5) To transact any other business with the permission of the Chair.

By order of the Board

Islamabad

Date: August 21, 2008

**(Basharat A. Mirza)**

Company Secretary



## NOTES:

### 1- Participation in the Annual General Meeting

A member entitled to attend and vote at this meeting is entitled to appoint another person as his / her proxy to attend and vote. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.

2- CDC account holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

#### a. For attending the meeting

In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per regulations, shall authenticate his / her identity by showing his / her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.

In the case of corporate entities, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

#### b. For appointing proxies

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per regulations, shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his / her original CNIC or original passport at the time of the meeting.

v) In the case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

### 3- Closure of Share Transfer Books

The share transfer books of the Company will remain closed and no transfer of shares will be accepted for registration from Tuesday, September 23, 2008 to Monday, September 29, 2008 (both days inclusive). Transfers received in order at the Share Registrars' office by the close of business on Monday, September 22, 2008 will be treated in time for the purpose of payment of final cash dividend, if approved by the Shareholders.

### 4- Change in Address

Members are requested to promptly notify any change in their addresses.



## Vision

To be a leading, regional Pakistani E & P Company, recognized for its people, partnerships and performance.

## Mission

Our mission is to become a competitive, dynamic and growing E & P Company, rapidly enhancing our reserves through world class workforce, best management practices and technology and maximizing returns to all stakeholders by capturing high value business opportunities within the country and abroad, while being a responsible corporate citizen.





## Core Values

Merit

Integrity

Teamwork

Safety

Dedication

Innovation



# Goals

## Financial

- To reduce cost and time over runs to improve financial results.
- To maximize profits by investing surplus funds in profitable avenues.
- To make investment decisions by ranking projects on the basis of best economic indicators.
- Growth and superior return to all stakeholders.
- Double the value of the Company in next five years.

## Learning and Growth

- Motivate and train our workforce, revitalize our equipment base and attain full autonomy in financial and decision making matters.
- To enhance the technical and commercial skills through modern HR management practices.
- Continuously develop technical and managerial skills at all levels and stay abreast of latest technological developments in the industry.
- Utilization of best blend of latest technologies and high performing human resources.

## Customer

- Improve the quality of service to make it faster and more transparent.
- Quality, dependability, responsible corporate citizen.
- Reliable and efficient company.
- To provide most reliable supplies to the customers through cost effective means.

## Internal Process

- To set up task forces with representation from all relevant departments to improve internal business decision making and strategic planning.
- Excel in exploration, development and commercialization.
- Availability of updated information to the shareholders and customers.
- To use most effective business practices and formulate a framework of synergic organization with the change in culture.





## Statement of Ethics and Business Practices (SE & BP)

Oil and Gas Development Company Limited conducts its operations in accordance with highest business ethical consideration, complying with all statutory regulations and best accepted standards of good corporate citizen. This policy applies to all directors and employees of the Company. The Company's core values are Merit, Integrity, Teamwork, Safety, Dedication and Innovation. It is towards the end of fostering these core values in the corporate culture of OGDCL that the Company has adopted this Code of Ethics and Business Practices (the Code). The Code implies as follows:

1. The directors and employees of the Company seek to protect the Company's assets. The Company's assets and services are used solely for legitimate business purposes of the Company. The use of Company's funds for political contributions to any organization or to any candidate for public office is prohibited.
2. The directors and employees adhere, in letter and spirit, to all laws and conform to the accepted standards of good corporate governance and avoid conflict of interest. The conflict of interest, if any must be notified to Company in writing immediately.
3. The Company respects the interests of all the stakeholders and enters into transparent and fairly negotiated contracts.
4. The Company is an equal opportunity employer.
5. The directors and employees reject corruption in all forms – direct, indirect, public or private and do not directly or indirectly engage in bribery, kick-backs, payoffs, or any other corrupt business practices.

6. Oil and Gas Development Company Limited respects the privacy of data relating to individual persons (whether employees or third parties) which it may hold or handle as part of its information processing activities or otherwise. Employees maintain confidentiality of the Company's and its customers' confidential information which is disclosed to them.

7. The directors and employees shall not place themselves in a position where their loyalty to the Company becomes divided for any reason including their direct or indirect financial interest in a competitor, supplier, consultant or customer.
8. The directors and employees may not take advantage of the Company's information or property, or their position with the Company, to develop inappropriate personal gains or opportunities. They may, however, receive gifts of token value or accept invitations only if such gifts or invitations have no influence on their decision making and are as per Company policy.
9. Employees may offer tips, gratuity or hospitality of a customary amount or value for routine services or courtesies received as per Company policy.

All directors and employees of Oil and Gas Development Company Limited and its subsidiary are responsible for the continuing enforcement of and compliance with this policy, including necessary distribution to ensure employee knowledge and compliance. Non-compliance with this policy will result in disciplinary action.







# Corporate Information

## Board of Directors

Mr. Arshad Nasar  
Mr. Zahid Hussain  
Mr. Muhammad Naeem Malik  
Mr. Irshad Ahmed Kaleemi  
Mr. Sikandar Hayat Jamali  
Mr. Alman Aslam  
Mr. Asad Umar  
Mr. Aslam Khaliq  
Mr. Azam Faruque  
Mr. Khalid Rafi  
Mr. Zahid Majid  
Al-Syed Abdul Qadir Jamaluddin Al-Gillani

Chairman  
Managing Director / CEO  
Director  
Director  
Director  
Director  
Director  
Director  
Director  
Director  
Director

## Company Secretary

Mr. Basharat A. Mirza

## Auditors

M/s KPMG Taseer Hadi & Co., Chartered Accountants  
M/s M. Yousuf Adil Saleem & Co., Chartered Accountants

## Legal Advisor

M/s Khokhar Law Chambers

## Tax Advisors

M/s Khalid Majid Rahman, Chartered Accountants

## Bankers

Allied Bank Limited  
Askari Bank Limited  
Bank Al-Falah Limited  
Bank Al-Habib Limited  
Citi Bank N.A  
Deutsche Bank AG  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
HSBC Bank Middle East Limited  
MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Royal Bank of Scotland  
Saudi Pak Commercial Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank  
The Bank of Punjab  
United Bank Limited

## Registered Office / Head Office

OGDCL House,  
Plot No 3, F-6/G-6, Blue Area,  
Jinnah Avenue, Islamabad.  
Tel: (PABX) (051) 9209811-8  
Fax: (051) 9209804-6, 9209708  
Email: csec@ogdcl.com  
Website: www.ogdcl.com

## Share Registrar

Noble Computer Services (Pvt) Limited,  
2nd Floor, Sohni Centre, BS 5 & 6, Main Karimabad,  
Block 4, Federal B. Area, Karachi-75950  
Tel: +92 21 6801880-82 (3 Lines)  
Fax: +92 21 6801129

# Board of Directors



**Mr. Arshad Nasar** is Chairman of the Board of Directors. Having joined Caltex Pakistan in 1968, Mr. Nasar became the first Pakistani Country Head of Caltex Oil (Pakistan) Ltd. in 1998. He holds a Masters degree in both Economics and Political Science.



**Mr. Muhammad Naeem Malik** is the Director General Petroleum Concessions, the regulator office for upstream Oil and Gas business in Pakistan. Mr. Malik has 26 years of experience in the public and private petroleum sector. He is a Chemical Engineer by profession.



**Mr. Irshad Ahmed Kaleemi** holds Masters degree in both Petroleum Geology and Economics & Finance. He has 24 years of experience in the public sector. At present he is Chief Finance & Accounts Officer to Ministry of Petroleum & Natural Resources. Mr. Kaleemi also serves on the Board of Directors of Pakistan Petroleum Limited.



**Mr. Alman Aslam** is an advisor to Emerging Markets Partners, a private equity fund. He is a banker by profession and has worked with Citigroup from 1975 to 2003. Mr. Aslam has a Masters degree in Business Administration.



**Mr. Sikandar Hayat Jamali** is the former secretary for Environment, Education and Parliamentary Affairs, Government of Pakistan. Mr. Jamali has served Government of Pakistan for over 30 years. He holds Masters degree in History, Public Policy & Administration and Area Studies.



**Mr. Asad Umar** is President and Chief Executive Officer of Engro Chemical Pakistan Ltd. Mr. Umar is also Chairman of Engro Asahi Polymer & Chemical Ltd, Engro Vopak Terminal Ltd and Engro Foods (Private) Limited. Mr. Umar holds a Bachelor's in Commerce and an MBA.



**Mr. Zahid Hussain**

is Managing Director/CEO of the Company. He is a law graduate and also holds Masters degree in International Relations. He is a senior Corporate Executive and held senior executive positions with various large companies including Pakistan Tobacco Company Limited, British American Tobacco Company, Pakistan Automobile Corporation. Suzuki, Mazda and Toyota, Pakistan Industrial Development Corporation, State Petroleum Corporation, and State Cement Corporation. Mr. Zahid Hussain also serves on the Board of Directors of Siemens Enterprise Communication (Pvt) Limited, Sui Southern Gas Company Limited and Mari Gas Company Limited.



**Mr. Zahid Majid**

serves as a private consultant on projects in the oil and gas industry. Mr. Majid has previously worked with Chevron Texaco. He has 45 years of experience at senior management level positions in multinational companies in the energy, fuel and fertilizer sectors. Mr. Majid is a Mechanical Engineer by profession.



**Mr. Khalid Rafi**

is chairman and founder of Si3, an IT Systems Integrator as well as Chairman of Ferguson Associates. Prior to this, Mr. Rafi was Senior Partner of A.F. Ferguson & Co. (a member firm of PricewaterhouseCoopers). Mr. Rafi is a fellow of the Institute of Chartered Accountants of Pakistan.



**Mr. Aslam Khaliq**

is the Director of the Board of Directors of Pakistan Tobacco Company, where he has worked since 1967. Mr. Khaliq is an Agronomist by profession.



**Mr. Azam Faruque**

is currently Chief Executive Officer of Cherat Cement Co. Ltd, which is part of the Ghulam Faruque Group. Mr. Faruque holds a degree in Electrical Engineering and Computer Sciences, a postgraduate diploma in Management and an MBA.



**Al-Syed Abdul Qadir Jamaluddin Al-Gilani**

is a member of the Provincial Assembly of Balochistan. A landlord by profession, holding a Master's degrees in International Relations and Political Science.





# Committees of the Board

## Audit Committee

Mr. Khalid Rafi	Chairman
Mr. Irshad Ahmed Kaleemi	Member
Mr. Alman Aslam	Member
Mr. Aslam Khaliq	Member
Mr. Zahid Majid	Member
Head of Internal Audit	Secretary

## Finance Committee

Mr. Alman Aslam	Chairman
Mr. Arshad Nasar	Member
Mr. Zahid Hussain	Member
Mr. Azam Faruque	Member
Mr. Sikandar Hayat Jamali	Member
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Member
Company Secretary	Secretary

## Human Resources Committee

Mr. Arshad Nasar	Chairman
Mr. Zahid Hussain	Member
Mr. Muhammad Naeem Malik	Member
Mr. Asad Umar	Member
Mr. Sikandar Hayat Jamali	Member
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Member
Executive Director (HR)	Secretary

## Technical Committee

Mr. Aslam Khaliq	Chairman
Mr. Arshad Nasar	Member
Mr. Zahid Hussain	Member
Mr. Muhammad Naeem Malik	Member
Mr. Asad Umar	Member
Mr. Azam Faruque	Member
Mr. Zahid Majid	Member
Company Secretary	Secretary



## Company Profile

Oil & Gas Development Company Limited (OGDCL) is the largest Exploration & Production (E&P) Company in Pakistan, listed on all the three stock exchanges of Pakistan as well as on London Stock Exchange.

OGDCL was initially created under an Ordinance in 1961, as Public Sector Corporation which subsequently in pursuance of the Petroleum Policy 1994 was converted from a statutory Corporation into a Public Limited Company w.e.f October 23, 1997.

Government of Pakistan (GoP) divested 4.98% of its shareholding in the Company in October 2003 through an Initial Public Offering (IPO). GoP further divested 9.5% of its shareholding through Secondary Offering in the form of Global Depository Shares (GDS) to international and local institutional investors in December 2006 and 0.5% to the general public in February 2007. GoP now owns 85.02% of the shares of the Company.

The Company's exploration and drilling strategies include maintaining balanced portfolio of exploration blocks, accelerating exploration activities in offshore, extend exploratory efforts to unexplored and frontier areas, explore old areas with new ideas and innovations, maintain acceptable success ratio for reserves addition, acquisition and use of improved and expandable technologies in drilling.

OGDCL's production strategies are focused on early and expeditious production from discovered oil & gas fields, maintaining and enhancing production

from existing fields through workovers and employing latest technology and different Secondary Recovery Techniques in order to optimize production.

Over the years the Company has grown into a fully integrated E&P business and presently owns largest oil and gas reserves in the Country. Company's share in Country's total oil and gas production stands at 59% and 23% respectively. The Company holds a total number of 44 Exploration Licenses covering 85,100.98 Sq. Kms which is 32% of the Country's total exploration acreage.

OGDCL's financial position has been consistently improving over the last many years. During the year 2007-08, Company's sales revenue and profit after tax surged to Rs 125.4 billion and Rs 49.6 billion respectively.

Besides having aggressive E&P plans within the Country to expand its indigenous production base, the Company is actively pursuing E&P opportunities internationally and in the years ahead will continue to play its role as a dynamic and growing E&P Company.







From left to right: Mr. Shahzad Saddam, Mr. Tahir Azizuddin,  
Mr. Zahid Hussain and Mr. Aftab Ahmad

## Leadership Team

**Mr. Zahid Hussain**  
Managing Director / CEO

**Mr. Aftab Ahmad**  
Executive Director (Finance / Joint Venture)

**Mr. Tahir Azizuddin**  
Executive Director (Petroserve)

**Mr. Shahzad Saddam**  
Executive Director (Human Resources)



# Senior Management

Mr. Zahid Hussain  
Managing Director / CEO

Mr. Aftab Ahmad  
Executive Director (Finance / Joint Venture)

Mr. Tahir Azizuddin  
Executive Director (Petroserve)

Mr. Shahzad Saddam  
Executive Director (Human Resources)

Mr. M. Zafar Chaudhry  
General Manager (Projects)

Mr. Afzal Chaudhry  
General Manager (PRTI)

Mr. Khalid Jamil Khan  
General Manager (Supply Chain Management)

Mr. Basharat A. Mirza  
General Manager/Company Secretary

Mr. Tariq Majeed Jaswal  
General Manager (Exploration)

Brig. (Retd.) M. A. Asif Sirhindi  
General Manager (Administration)

Mr. Muhammad Rafi  
General Manager (Finance)

Mr. Muhammad Riaz Khan  
General Manager (Production, Plant & Process)

Mr. Fawad Rauf  
General Manager (System Support)

Mr. Shoukat Ellahi Qazi  
General Manager (Reservoir Management)

Mr. Zahid Imran Farani  
General Manager (Prospect Generation)

Mr. Shamim Iftikhar Zaidi  
General Manager (Drilling Operations)

Mr. Pervaiz Alam Sethi  
General Manager (Geological Services)

Mr. Khalid Subhani  
Acting General Manager (Plant & Process)

Mr. Zafar Iqbal Awan  
Acting General Manager (Geophysical Services)

Mr. Tahir Shaukat  
Acting General Manager (C & ESS)

Mr. Amjad Javed  
Acting General Manager (Human Resources)

Mr. Aijaz Muhammad Khan  
Acting General Manager (C&B/IR)



Sitting from left to right: Mr. Tariq Majeed Jaswal, Mr. Aftab Ahmad, Mr. Zahid Hussain, Mr. Tahir Azizuddin, Mr. Shahzad Saddam, Mr. Khalid Jamil Khan

Standing from left to right: Mr. Fawad Rauf, Mr. Amjad Javed, Mr. Zahid Imran Farani, Mr. M. Zafar Chaudhry, Mr. Tahir Shaukat, Mr. Basharat A. Mirza, Brig. (Retd.) M. A. Asif Sirhindi, Mr. Muhammad Rafi, Mr. Muhammad Riaz Khan, Mr. Pervaiz Alam Sethi, Mr. Aijaz Muhammad Khan, Mr. Khalid Subhani, Mr. Shamim Iftikhar Zaidi, Mr. Afzal Chaudhry





## Exploration Licenses Held by OGDCL as on June 30, 2008

Sr. No.	Blocks	Districts / Provinces	Area (Sq. Kms)	Date of Grant
<b>OGDCL 100% Own Concessions</b>				
1	Dhudial	Chakwal & Rawalpindi, Punjab	313.53	08-11-03
2	Fateh Jang	Islamabad, Rawalpindi & Attock, Punjab	2,136.46	05-11-02
3	Indus Delta-A	Offshore Area	2,499.01	23-10-04
4	Jandran	Loralai, Barkhan & Kohlu Agency, Balochistan	408.00	20-09-89
5	Rachna	Layyah, Jhang, Tobatek Singh, Khanewal & Muzaffar Garh, Punjab	2,436.47	08-11-03
6	Saruna	Khuzdar & Lasbella, Balochistan	2,431.62	17-02-04
7	Shahana	Kharan & Panjgur, Balochistan	2,445.06	29-12-04
8	Multan North	Layyah, Jhang, Khanewal, Multan & Muzaffar Garh, Punjab	2,498.97	11-02-05
9	Multan South	Khanewal, Vihari, Lodhran & Multan, Punjab	2,480.78	11-02-05
10	Dhok Sultan	Attock, Rawalpindi, Mianwali & Kohat, Punjab/NWFP	703.23	06-07-05
11	Samandar	Awaran & Uthal, Balochistan	2,495.33	06-07-05
12	Bagh-o-Bahar	Rahim Yar Khan & Bahawalpur, Punjab	2,499.13	20-09-05
13	Thatta	Thatta, Sindh	2,438.85	20-09-05
14	Bagh South	Jhang, Tobatek Singh, Khanewal, Sahiwal & Vihari, Punjab	2,497.05	24-10-05
15	Thatta East	Thatta, Sindh	2,459.39	24-10-05
16	Khiranwala	Bahawalpur & Rahim Yar Khan, Punjab	2,497.35	24-10-05
17	Pakhiwala	Rahim Yar Khan, Punjab	2,495.29	24-10-05
18	Latamber	Waziristan Agency, Karak & Banuu, NWFP	331.47	24-10-05
19	Tigani	Shikarpur, Jacobabad & Sukkur, Sindh	270.60	13-02-06
20	Thano Beg	Lasbela, Dadu & Karachi, Sindh / Balochistan	2,404.73	13-02-06
21	Thal	Khairpur, Sukkur & Ghotki, Sindh	1,622.67	13-02-06
22	Chakral	Chakwal & Rawalpindi, Punjab	302.32	31-05-06
23	Wali	North & South Waziristan Agencies, Banuu & Lakki Marwat, NWFP	2,179.26	31-05-06
24	Mianwali	Mianwali, Chakwal & Khushab, Punjab	2,280.91	31-05-06
25	Soghri	Kohat & Attock, NWFP/Punjab	588.09	31-05-06
26	Offshore Indus-S	Offshore Area	2,129.91	23-03-07
27	Offshore Indus-R	Offshore Area	1,492.23	19-04-07
28	Eastern Offshore Indus-A	Offshore Area	2,500.00	05-07-07
29	Shaan	Qila Saifullah, Zhob, Musa Khel Bazar, Balochistan	2,489.80	13-07-07
			<b>54,327.51</b>	



Sr. No.	Blocks	Districts / Provinces	Area (Sq. Kms)	Date of Grant
OGDCL Operated Joint Venture Concessions (OGDCL 95% & GHPL 5%)				
1	Bitrisim	Nawabshah & Khairpur, Sindh	1,445.11	27-09-97
2	Khewari	Nawabshah & Khairpur, Sindh	1,276.40	29-12-99
3	Nim	Tharparkar & Hyderabad, Sindh	235.26	23-11-04
4	Tando Allah Yar	Hyderabad, Sindh	403.34	27-09-97
5	Zin	Mari Baugti, Nasirabad & Kachhi, Balochistan	5,559.74	15-08-99
			8,919.85	

Sr. No.	Blocks	Districts / Provinces	Area (Sq. Kms)	Date of Grant	Working Interest
OGDCL Operated Joint Venture Concessions (with other E & P companies)					
1	Indus-G	Offshore Area	7,466.02	22-10-99	OGDCL 50%, Petrobrass 50%
2	Gurgalot	Kohat & Attock, NWFP/Punjab	346.92	28-06-00	OGDCL 75%, POL 20%, GHPL 5%
3	Kotra	Khuzdar & Kachhi, Balochistan	663.92	16-12-00	OGDCL 66.5%, POL 28.5%, GHPL 5%
4	Nashpa	Attock, Mianwali, Kohat, Karak & N.W. Agency, Punjab/NWFP	979.69	16-04-02	OGDCL 65%, PPL 30%, GHPL 5%
5	Sinjhoro	Sanghar & Khairpur, Sindh	1,283.43	29-12-99	OGDCL 76%, OPII 19%, GHPL 5%
6	Zamurdan	D.G. Khan & Rajanpur, Punjab	2,080.58	17-02-04	OGDCL 40%, OMV 30%, MGCL 20%, PEL 10%
7	Kalchas	Kohlu, Dera Bugti & D.G. Khan, Balochistan/Punjab	2,068.32	29-12-04	OGDCL 50%, MGCL 30%, Tullow 20%
8	Kohlu	Kohlu, Dera Bugti & Barkan, Balochistan	2,459.11	29-12-04	OGDCL 40%, MGCL 30%, Tullow 30%
9	Dhermund	Attock, Mianwali, Chakwal & Khushab, Punjab	2,412.23	15-07-05	OGDCL 60%, Saif Energy 40%
10	Guddu	Rajanpur, Rahim Yar Khan, Sukkur & Jacobabad, Punjab / Sindh	2,093.40	17-02-07	OGDCL 70%, IPR 25%, GHPL 5%
			21,853.62		
			85,100.98		

#### Non-Operated Joint Venture Concessions

1	Block-28	Sibbi, Kohlu & Loralai, Balochistan	6,200.00	14-01-91	Tullow 95%, OGDCL 5%
2	Kohat	Kohat & Hangu, NWFP & Tribal Areas	1,107.21	27-04-05	Tullow 40%, OGDCL 30%, MGCL 20%, SEL 10%
3	Bunnu West	Bannu, Hangu, NWFP and Waziristan & Kurram Agencies, Tribal Areas	1,229.57	27-04-05	Tullow 40%, OGDCL 40%, MGCL 10%, SEL 10%
4	Tal Block	Kohat, Karak & Hangu, NWFP & Tribal Areas	3,714.78	11-02-99	MOL 10%, OGDCL 30%, PPL 30%, POL 25%, GHPL 5%
5	Sari South	Dadu & Thatta, Sindh	535.33	25-10-08	SEL 30%, OGDCL 50%, OMV 20%
			12,786.89		



# Development and Production / Mining Leases

Held by OGDCL as on June 30, 2008

Sr. No.	Lease	Districts / Provinces	Area (Sq. Kms)	Date of Grant
<b>Own and Operated Joint Venture Leases</b>				
1	Fimkassar	Chakwal, Punjab	27.980	19-12-92
2	Bhal Syedan	Attock, Punjab	16.410	30-06-02
3	Chak Naurang (ML)	Chakwal, Punjab	72.700	14-11-88
4	Chanda	Kohat, NWFP	32.320	01-06-02
5	Dakhni (ML)	Attock, Punjab & Kohat, NWFP	268.800	23-04-04
6	Kal	Chakwal, Punjab	41.960	01-01-05
7	Missakeswal	Rawalpindi, Punjab	23.430	11-04-94
8	Rajian	Chakwal & Jehlum, Punjab	39.090	28-02-06
9	Sadkal	Attock, Punjab	26.770	24-01-94
10	Toot (ML)	Attock, Punjab	67.620	11-01-98
11	Qadirpur	Jacobabad & Sukkur, Sindh	389.160	18-10-92
12	Dhodak	Dera Ghazi Khan, Punjab	41.920	01-02-95
13	Loti (ML)	Dera Bugti Agency, Balochistan	204.190	14-11-86
14	Nandpur	Multan & Jhang, Punjab	45.050	12-03-96
15	Panjpir	Multan & Jhang, Punjab	45.180	12-03-96
16	Pirkoh (Extension)	Dera Bugti Agency, Balochistan	13.570	14-07-88
17	Pirkoh (ML)	Sibi (Bugti Tribal Territory) Balochistan	141.690	08-08-02
18	Sara West	Ghotki, Sindh	168.410	08-06-01
19	Uch	Dera Bugti, Balochistan	121.000	01-07-96
20	Bagla	Thatta & Badin, Sindh	29.700	27-02-95
21	Bobi / Dhamarkhi	Sanghar, Sindh	129.980	23-01-90
22	Buzdar & Buzdar North	Hyderabad, Sindh	14.920	13-12-99
23	Chak 5 Dim South	Sanghar, Sindh	15.920	18-03-96
24	Dars	Hyderabad, Sindh	6.020	24-01-05
25	Dars West	Hyderabad, Sindh	5.199	24-01-05
26	Daru	Thatta, Sindh	10.260	07-04-90
27	Hundi	Dadu & Hyderabad, Sindh	15.040	21-09-02
28	Jakhro	Sanghar, Sindh	35.050	13-02-02
29	Kunnar	Hyderabad, Sindh	34.210	23-01-90
30	Lashari Centre & South	Hyderabad, Sindh	23.150	25-06-89
31	Missan	Hyderabad, Sindh	2.330	12-07-99
32	Norai Jagir	Hyderabad, Sindh	2.430	16-08-05
33	Nur	Thatta & Badin, Sindh	30.640	27-02-95
34	Pali	Sanghar, Sindh	16.430	17-11-01
35	Pasahki & Pasahki North	Hyderabad, Sindh	27.950	27-01-90
36	Sari Sing	Dadu & Hyderabad, Sindh	25.600	30-07-68
37	Sono	Hyderabad, Sindh	25.080	23-07-89
38	Tando Alam	Hyderabad, Sindh	38.640	30-07-05
39	Tando Allah Yar	Hyderabad, Sindh	3.350	24-01-05
40	Thora / Thora East & Thora add. (ML)	Hyderabad, Sindh	15.210	23-01-90
41	Bahu	Jhang, Punjab	11.220	19-05-08
42	Kunnar Deep (ML)	Hyderabad, Sindh	16.070	17-05-08
43	Kunnar West (ML)	Hyderabad, Sindh	3.130	17-05-08
44	Pasahki Deep	Hyderabad, Sindh	18.080	17-05-08

Sr. No.	Lease	Districts / Provinces	Area (Sq. Kms)	Operator	Partners
<b>Non-Operated Joint Venture Leases</b>					
1	Badin-II	Tando Muhammad Khan, Thatta & Badin, Sindh	186.050	BP 51%	OGDCL 49%
2	Badin-II Rev	Thatta, Hyderabad & Badin, Sindh	33.880	BP 76%	OGDCL 24%
3	Badin-III	Tando Muhammad Khan, Thatta & Badin, Sindh	40.630	BP 60%	OGDCL 15%, GHPL 25%
4	Block-B	Kandkot, Sindh	106.540	Tullow 38.18%	OGDCL 40%, POL 14.55%, AOC 7.27%
5	Tajjal	Sukkur & Khairpur, Sindh	457.820	ENI 18.42%	OGDCL 50%, PKP 15.79%, PKP-2 15.79%
6	Kirthar (Bhit)	Hyderabad, Sindh	250.000	ENI 40%	OGDCL 20%, PKP 6%, PKP-2 6%, KPBV 28%
7	Kirthar (Badhra)	Hyderabad, Sindh	230.260	ENI 40%	OGDCL 20%, PKP 6%, PKP-2 6%, KPBV 28%
8	Adhi	Rawalpindi & Jehlum, Punjab (Sq. Miles)	70.000	PPL 39%	OGDCL 50%, POL 11%
9	North Potwar	Attock, Punjab	63.390	OPIL 70%	OGDCL 20%, AOC 5%, POL 5%
10	Soan	Rawalpindi, Punjab	44.300	OPIL 40%	OGDCL 50%, AOC 3%, POL 7%
11	Ratana	Attock, Punjab	214.500	OPIL 65.91%	OGDCL 25%, AOC 4.545%, POL 4.545%
12	Miano	Sukkur, Sindh	720.550	OMV 17.68%	OGDCL 52%, PPL 15.16%, ENI 15.16%
13	Soan	Rawalpindi, Punjab	86.580	POL 35%	OGDCL 50%, AOC 15%
14	Ghauspur	Jacobabad & Ghotki, Sindh	122.000	PEL 26.32%	OGDCL 50%, SHERRITT 15.79%, SPUD 7.89%







# Ten Years at a Glance

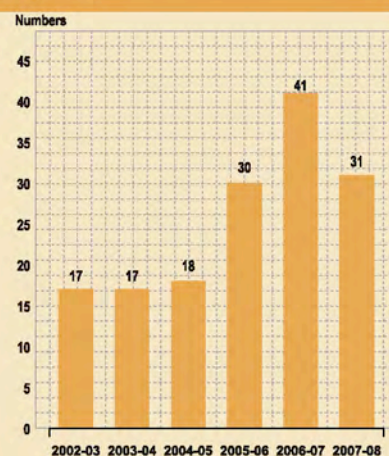
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Operational Performance</b>							
Seismic Survey - 2D	L. Kms	2,730	1,884	1,258	2,395	2,502	2,060
- 3D	Sq. Kms	-	-	-	-	-	148
Exploratory & Development Wells Drilled	Numbers	9	9	5	10	17	17
Oil & Gas Discoveries	Numbers	-	1	-	2	6	2
<b>Quantity Sold</b>							
Crude Oil	Thousand BBL	8,074	8,907	8,535	8,705	9,413	9,941
Gas	MMcf	115,967	161,534	217,927	245,537	274,006	277,408
LPG	M.Tons	90,425	93,004	77,402	93,136	90,304	101,322
Sulphur	M.Tons	29,880	13,445	16,670	23,234	15,889	18,917
White Petroleum Products	Thousand BBL	1,000	1,038	998	989	859	890
<b>Financial Results</b>							
Net Sales	Rs in billion	14.23	25.30	38.30	39.81	45.07	51.33
Other Revenues		0.60	0.91	1.60	2.04	1.99	1.31
Profit Before Tax		4.77	12.95	23.23	25.69	26.42	30.52
Profit After Tax		4.55	10.56	16.50	16.77	20.67	22.41
Dividend Declared		1.08	2.15	6.67	10.75	12.90	17.20
<b>Balance Sheet</b>							
Share Capital	Rs in billion	10.75	10.75	10.75	10.75	10.75	43.01
Reserves		22.68	31.08	40.92	46.94	54.71	33.04
Non Current Liabilities		10.24	9.53	5.12	10.51	13.01	15.58
Current Liabilities		10.81	7.85	10.97	7.14	6.46	4.36
Total Equity & Liabilities		54.49	59.22	67.76	75.34	84.92	95.99
Fixed Assets		29.55	29.06	28.76	34.57	37.54	39.73
Long Term Investments, Loans, Rec. & Prepayments		0.82	0.86	0.88	4.09	3.35	3.18
Current Assets		24.13	29.29	38.12	36.68	44.04	53.09
Total Assets		54.49	59.22	67.76	75.34	84.92	95.99
<b>Cash Flow Summary</b>							
Net Cash from Operating Activities	Rs in billion	4.86	11.89	19.43	19.72	19.64	24.24
Net Cash used in Investing Activities		(2.25)	(1.90)	(2.30)	(4.12)	(4.63)	(4.03)
Net Cash used in Financing Activities		(0.98)	(5.82)	(11.51)	(15.47)	(10.48)	(14.34)
(Decrease) / Increase in Cash and Cash Equivalent		1.63	4.17	5.62	0.12	4.53	5.87
Cash and Cash Equivalent at beginning of the Year		3.37	5.00	9.17	14.79	14.91	19.44
Cash and Cash Equivalent at end of the Year		5.00	9.17	14.79	14.91	19.44	25.31
<b>Key Indicators</b>							
Earnings per Share (EPS)	Rupees	1.06	2.45	3.84	3.90	4.81	5.21
Gross Profit Margin	%	55%	62%	68%	68%	67%	68%
Net Profit Margin	%	32%	42%	43%	42%	46%	44%
EBITDA Margin	%	63%	68%	71%	73%	67%	69%
Current Ratio	Times	2.23	3.73	3.48	5.14	6.82	12.17
Quick Ratio	Times	1.58	2.94	2.94	4.24	5.88	10.32
Debtor Turnover Ratio	Times	1.24	2.60	3.07	2.84	3.46	3.92
Total Assets Turnover Ratio	%	26%	44%	60%	56%	56%	57%
Return on Average Capital Employed	%	15%	26%	34%	31%	34%	33%
Return on Assets / Return on Investment (ROI)	%	8%	19%	26%	23%	26%	25%
Break-up Value per Share	Rupees	7.77	9.73	12.01	13.41	15.22	17.68
Market Price per Share - As on June 30	Rupees	-	-	-	-	-	64.50
- High during the Year		-	-	-	-	-	71.25
- Low during the Year		-	-	-	-	-	36.10
Price Earning Ratio	Times	-	-	-	-	-	12.38
Dividend per Share	Rupees	0.25	0.50	1.55	2.50	3.00	4.00
Dividend Pay out Ratio	%	24%	20%	40%	64%	62%	77%
Dividend Yield Ratio	%	-	-	-	-	-	6%
Dividend Cover Ratio	Times	4.23	4.91	2.47	1.56	1.60	1.30
<b>Contribution to National Exchequer</b>	Rs in billion	9.01	16.19	25.81	32.99	34.66	38.89

Note: (1) Dividend per Share, Earnings per Share and Break-up Value for previous years have been adjusted after taking into account issue of bonus shares and listing of the Company on stock Exchanges in October 2003. (2) Previous year figures have been re-arranged and / or re-classified, wherever necessary for the purpose of comparison.

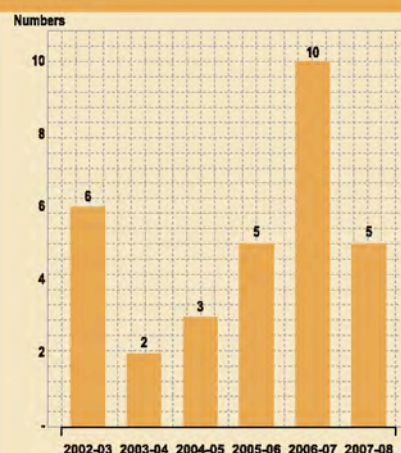


2004-05	2005-06	2006-07	2007-08
1,891	4,902	3,282	2,889
262	395	661	1,067
18	30	41	31
3	5	10	5
13,045	12,956	13,930	15,037
329,385	336,059	337,430	352,454
120,063	128,654	139,480	125,482
25,884	22,006	16,638	29,065
885	959	895	547
73.71	96.76	100.26	125.45
2.28	4.25	3.62	8.31
49.02	65.91	61.06	83.36
32.97	45.97	45.63	49.61
32.26	38.71	38.71	40.86
43.01	43.01	43.01	43.01
40.20	51.76	57.61	66.36
17.84	15.65	17.60	19.97
13.53	10.89	11.12	21.23
114.58	121.31	129.34	150.57
43.25	46.25	56.72	67.71
4.22	4.21	4.10	4.61
67.11	70.85	68.52	78.25
114.58	121.31	129.34	150.57
39.23	44.64	36.97	51.93
(8.13)	(8.81)	(13.00)	(11.77)
(18.62)	(41.44)	(38.15)	(41.47)
12.49	(5.62)	(14.18)	(1.31)
25.31	37.80	32.18	17.99
37.80	32.18	17.99	16.68
7.67	10.69	10.61	11.54
72%	72%	70%	70%
45%	48%	46%	40%
74%	73%	68%	70%
4.96	6.51	6.16	3.69
4.40	5.49	4.97	2.91
4.65	4.50	3.83	3.66
70%	82%	80%	90%
41%	52%	47%	47%
31%	39%	36%	35%
19.35	22.03	23.39	25.43
105.30	136.75	119.80	124.36
189.75	168.80	156.00	140.80
58.40	98.55	113.20	104.90
13.73	12.79	11.29	10.78
7.50	9.00	9.00	9.50
98%	84%	85%	82%
7%	7%	8%	8%
1.02	1.19	1.18	1.21
61.03	79.46	78.08	99.37

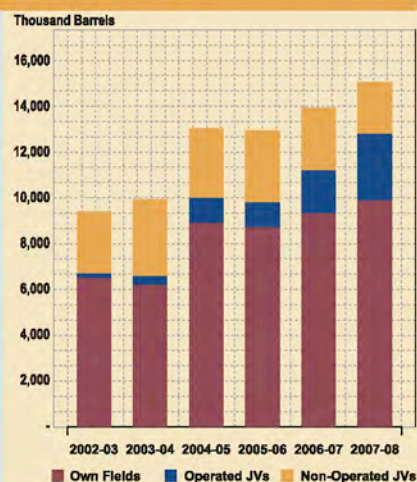
### Wells Spudded



### Discoveries

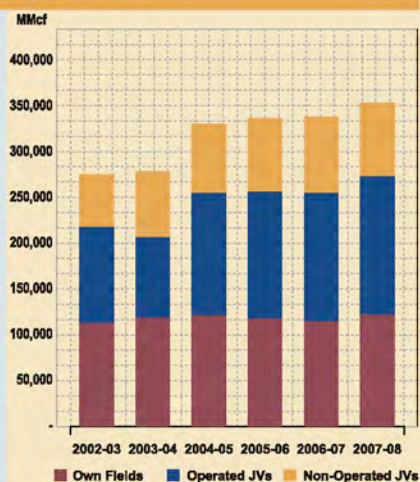


### Quantity Sold - Crude Oil





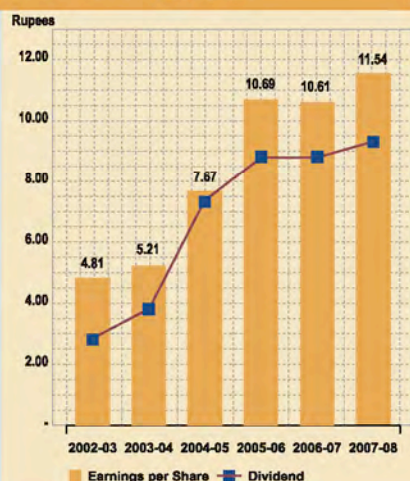
### Quantity Sold - Gas



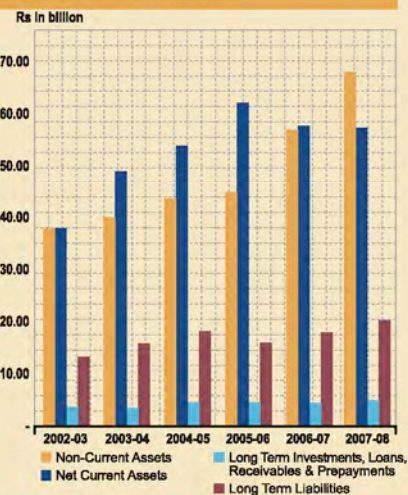
### Sales Revenue Vs Profit After Tax



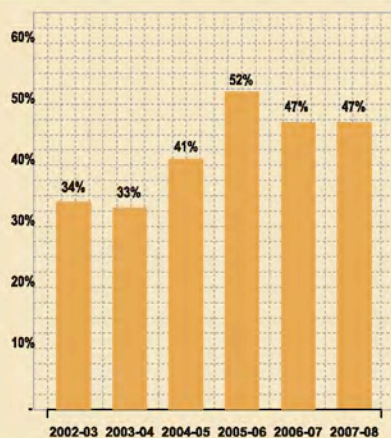
### Dividend and Earnings per Share



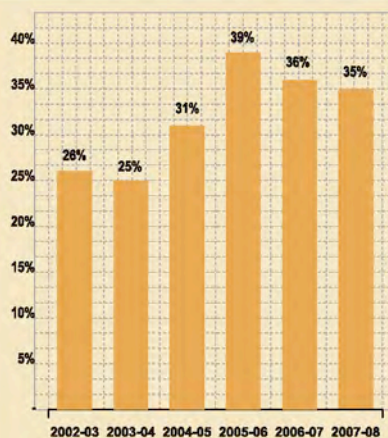
### Assets and Liabilities



### Return on Average Capital Employed



### Return on Assets / Return on Investment









# Vertical and Horizontal Analysis

## Vertical Analysis

### Profit and Loss Account

	2006-07		2007-08	
	Rs in Million	%	Rs in Million	%
Sales - Net	100,261	100.0	125,446	100.0
Royalty	10,878	10.8	17,263	13.8
Operating Expenses	18,497	18.4	18,882	15.1
Transportation Charges	1,088	1.1	1,473	1.2
	30,463	30.3	37,618	30.0
Gross Profit	69,798	69.6	87,828	70.0
Other Income	3,615	3.6	8,309	6.6
Exploration and Prospecting Expenditure	7,406	7.4	6,613	5.3
General & Administration Expenses	1,285	1.3	1,244	1.0
Finance Cost	450	0.4	532	0.4
Workers' Profit Participation Fund	3,213	3.2	4,387	3.5
Profit before Taxation	61,059	60.9	83,361	66.4
Taxation	15,429	15.4	33,747	26.9
Profit for the year	45,630	45.5	49,614	39.6

### Balance Sheet

Share Capital and Reserves	100,617	77.8	109,371	72.6
Non Current Liabilities	17,599	13.6	19,966	13.3
Current Liabilities	11,122	8.6	21,231	14.1
	129,338	100.0	150,568	100.0
Non Current Assets	60,819	47.0	72,314	48.0
Current Assets	68,519	53.0	78,254	52.0
	129,338	100.0	150,568	100.0

## Horizontal Analysis

### Profit and Loss Account

	(Rs in Million)		%age Change
	2006-07	2007-08	
Sales - Net	100,261	125,446	25.1
Royalty	10,878	17,263	58.7
Operating Expenses	18,497	18,882	2.1
Transportation Charges	1,088	1,473	35.4
	30,463	37,618	23.5
Gross Profit	69,798	87,828	25.8
Other Income	3,615	8,309	129.8
Exploration and Prospecting Expenditure	7,406	6,613	(10.7)
General & Administration Expenses	1,285	1,244	(3.2)
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### Balance Sheet

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	129,338	150,568	16.4
Non Current Assets	60,819	72,314	18.9
Current Assets	68,519	78,254	14.2
	129,338	150,568	16.4



# Statement of Value Addition

	(Rs in Million)	
	2006-07	2007-08
Gross Sales Revenue	116,559	139,062
Less:		
Operating, Transportation, Gen. & Admin. and Exploration Expenses	18,124	15,703
	98,435	123,359
Add:		
Income from Financial Assets	3,487	7,944
Income from Non-Financial Assets	128	365
Less:		
Finance Cost	450	532
Total Value Added	101,600	131,136
Distribution:		
Employees as Remuneration	3,538	4,696
Governement as:		
Corporate Tax	15,429	33,747
Levies - General Sales Tax	14,829	12,073
Excise Duty	1,417	1,483
Development Surcharge	51	61
Royalty	10,877	17,262
WPPF	3,214	4,387
	45,817	69,013
Shareholders as:		
Dividends	39,784	40,859
Retained in Business:		
Capital Reserve	219	229
Depreciation	2,978	2,920
Amortization	3,637	4,893
Unappropriated Profit	5,627	8,526
	12,461	16,568
	101,600	131,136



## Directors' Report



The Directors of Oil & Gas Development Company Limited are delighted to present their report and the audited financial statements together with Auditors' Report for the year ended June 30, 2008.

The year 2007-08 was another year of successful operations for the Company. During the year, OGDCL maintained its growth and recorded further improvement in its operating results. Its crude oil and gas production on gross basis from 100% owned and operated joint venture (JV) fields grew by 13.9% and 6.1% respectively. However, due to decline in production from non-operated JV fields and after subtracting partners' share in operated JV fields, the Company's production of crude oil and gas on working interest on net basis increased by 4.7% and 3.1% respectively over the previous year. Production growth along with continuing strong realized prices of crude oil, LPG and other refined petroleum products contributed towards 25.1% increase in Company's sales revenue resulting into 8.7% increase in profit after tax over 2006-07. Company's continued exploratory efforts yielded five (5) oil and gas/condensate discoveries during this year namely Moolan-1, Pasahki East-1, Moolan North-1, Pakhro-1 and Dhodak Deep-1. Subsequently, in July 2008, one more gas/condensate discovery at Kunhar South-1 was made by the Company. Out of these six discoveries, five were in Sindh, and one in Punjab. These newly discovered fields have been tested to produce 1,150 barrels per day of crude oil, 593 barrels per day of condensate and 46 MMcf per day of gas. Reserves assessment of these fields is currently under evaluation. These discoveries will further strengthen Company's reserves and production base.

Continuing growth in crude oil production during the year reflects successful development drilling, workovers

and even more significantly, successful field development strategy, where new fields and wells like Chak-66 North East, Moolan North-1, Qadirpur 29, 30 & 31, Thora-6, Tando Alam 16-A, 17, 19 & 20, Kunhar-7, Mela-2 and Dakhni Deep-2 were brought into production. Company's production including its share in operated and non-operated JV fields averaged at 43,434 barrels per day of crude oil and 976 MMcf per day of gas compared with 41,503 barrels per day of crude oil and 947 MMcf per day of gas during 2006-07.

During the year under review, Company spudded 31 wells including 13 Exploratory/Appraisal and 18 Development wells. The Company also achieved 2,889 L. Kms of 2-D seismic survey and registered 61% increase in its 3-D seismic acquisition from 661 Sq. Kms in 2006-07 to 1,067 Sq. Kms in 2007-08. These achievements reflected that OGDCL has maintained its position as lead performer in the E&P sector of the Country.

### AWARDS CONFERRED

#### KSE Top Twenty Five Companies Awards

We are pleased to inform that OGDCL has been ranked amongst the "Top Twenty Five Companies" on the Karachi Stock Exchange (KSE) for the fourth consecutive year (2004 to 2007). The selection for the award reflects our dedication and commitment to the best practices of corporate governance in addition to meeting the pre-requisites laid down by the KSE Board for the listed companies and marks obtained on the basis of distribution of profits, return on equity, turnover of shares and corporate social contributions / donations.

#### Best Corporate Reports Awards

Annual Reports of OGDCL for the years 2006 and 2007 have been placed in the list of winners of the Best Corporate Reports Awards evaluated by the Joint Committee of Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost & Management Accountants of Pakistan (ICMAP).

#### Pakistan Corporate Philanthropy Award

OGDCL was ranked first in the category of top performing companies by volume of donations i.e., for giving the largest amount of donations for social development. The award was presented by the Prime Minister of Pakistan.

### FINANCIAL RESULTS

During the year under review, OGDCL registered all time high figures of revenue and profitability. Its sales revenue grew by 25.1% to Rs 125.446 billion (2006-07: Rs 100.261 billion) due to the combination of increased sales volume (3.9%) of crude oil, gas and sulphur and



higher price realization (21.2%) of crude oil, LPG, white petroleum products and sulphur. Increase in sales volume contributed net increase of Rs 3.939 billion towards sales revenue. However, increase in sales revenue due to higher realized prices was Rs 21.249 billion. Net realized prices of crude oil and gas averaged at US\$ 71.29/BBL and Rs 142.13/Mcf respectively compared with US\$ 51.86/BBL and Rs 144.12/Mcf respectively during the previous year.

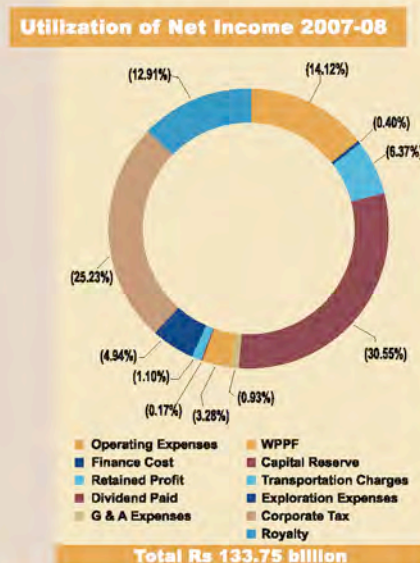
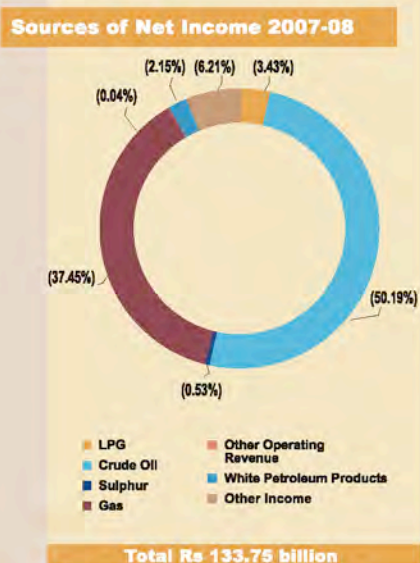
Company registered 36.5% increase in profit before taxation to Rs 83.361 billion in 2007-08 compared to Rs 61.059 billion during the previous year. This increase is due to higher sales revenue despite higher figures of royalty which increased by Rs 6.385 billion due to enhanced sales revenue from oil and gas in addition to royalty levied on condensate and LPG from Dhodak & Dakhni fields and royalty levied on gross proceeds from Uch gas from date of inception instead of royalty on commodity charges previously recorded. Other income during the year increased to Rs 8.309 billion (2006-07: Rs 3.615 billion) mainly due to dividend of Rs 5.016 billion received from Subsidiary

Company. Increase of Rs 1.174 billion in Workers' Profit Participation Fund (WPPF) was due to increase in profit before taxation. Profit after taxation was Rs 49.614 billion (2006-07: Rs 45.630 billion) resulting in earnings per share (EPS) of Rs 11.54 compared with Rs 10.61 in the previous year.

During the year under review, net cash from operations, after working capital changes and payments of royalty, corporate tax and WPPF of Rs 39.274 billion, was Rs 51.932 billion, an increase of Rs 14.959 billion over 2006-07. Payment of Rs 18.344 billion as capital expenditure and receipt of Rs 6.830 billion as interest and dividends resulted into net cash utilized in investing activities of Rs 11.769 billion against Rs 13.002 billion in 2006-07. Net cash used in payment of dividend was Rs 41.473 billion as against Rs 38.154 billion in the previous year. Increase in cash flow from operating activities, and net cash utilized in investing and financing activities resulted in a net cash decrease of Rs 1.309 billion to ending cash and cash equivalent balance of Rs 16.685 billion compared with Rs 17.994 billion over the previous year.

Financial results for the year ended June 30, 2008 are summarized below:

			Rs in billion
Profit before taxation			83.361
Taxation			(33.747)
Profit after taxation			49.614
Unappropriated profit brought forward			55.169
Profit available for appropriations			104.783
Appropriations:			
Transfer to capital reserve			(0.229)
Distribution through Dividends:			
Final dividend 2006-07	@ Rs 3.50 per share (35.00%)	(15.053)	
First interim dividend 2007-08	@ Rs 1.75 per share (17.50%)	(7.527)	
Second interim dividend 2007-08	@ Rs 2.00 per share (20.00%)	(8.602)	
Third interim dividend 2007-08	@ Rs 2.25 per share (22.50%)	(9.677)	(40.859)
Unappropriated profit carried forward			63.695







Mr. Aftab Ahmad, ED (Finance / JV) OGDCL receives the Corporate Report Award from Mr. Tariq Iqbal Khan, Chairman, NIT

## DIVIDEND

The Board of Directors is pleased to announce final cash dividend of 35.0% (Rs 3.50 per share). This is in addition to three interim cash dividends at 60.0% (Rs 6.00 per share) already declared during the year. This makes a total of 95.0% (Rs 9.50 per share) for the year ended June 30, 2008.

## CONTRIBUTION TO NATIONAL EXCHEQUER

During the year 2007-08, OGDCL contributed Rs 99.37 billion (2006-07: Rs 78.08 billion) to the national exchequer in the form of royalty, dividends, corporate tax, general sales tax, excise duty and development surcharge. This is in addition to Company's contribution towards savings in foreign exchange through import substitution.

## EXPLORATION AND DEVELOPMENT

OGDCL's exploration strategies of maintaining balanced portfolio of exploration blocks and accelerating exploration activities in offshore and unexplored and frontier areas are firmly in place. Additionally, the Company is making efforts to explore old areas with new ideas and innovations and trying to maintain acceptable success ratio for reserves addition.

Pursuing its exploration strategies, OGDCL further enhanced its exploration portfolio by acquiring two more blocks during 2007-08. Eastern Offshore Indus-A (100 %) and Shaan Block No. 3069-4, the Block lies in the districts of Qila Saifullah, Zhob and Musakhel Bazar of Balochistan Province. In addition, one reconnaissance permit over Jhampir Block in Sindh Province was also granted for one

year w.e.f., June 21, 2008 covering an area of 1,326.62 Sq. Kms.

OGDCL, presently holds 32% of Country's total exploration acreage and as of June 30, 2008 was operating 44 exploration blocks covering an area of 85,100.98 Sq. Kms, 29 of them including offshore Blocks Indus Delta-A, Indus-S, Indus-R and Eastern Offshore Indus-A are 100% owned. 15 blocks including offshore Block Indus-G are operated by OGDCL as joint venture with other companies. OGDCL is also holding interest in five non-operated joint venture concessions.

On February 08, 2008, a cross assignment agreement was executed between OGDCL and BP whereby OGDCL agreed to transfer 50% of its interest along with operator ship to BP in Offshore Block-S and an entry right to BP with OGDCL's Offshore Block-G for 25% interest. In consideration BP agreed to transfer 27.5% of its working interest in Blocks U&V each with 20% working interest in Block-W to OGDCL with an understanding that BP will carry OGDCL's portion of cost in respect of Block-W during the first phase of the license.

The Geological Party completed 200 L. Kms structural traverses and collected more than 500 samples for reservoir / source study in Kalchas Concession located in Balochistan Province and Punjab.

During the year under review, OGDCL acquired 2,889 L. Kms of 2-D seismic survey through its own crew and through contractor's crew. 2-D seismic data have been acquired in North, Centre, South East and Offshore Indus Blocks.



In the North Blocks, survey have been carried out in Dakhni North East (221 L. Kms), Chakral (90 L. Kms), Nashpa South (40 L. Kms) and Soghri (66 L. Kms). In the Centre Blocks seismic data have been acquired in Pakhiwala (150 L. Kms), Khrianwala, (160 L. Kms) Rachana (174 L. Kms), Tegani (95 L. Kms) and Multan South (290 L. Kms). In the South East Blocks 2-D seismic acquisition have been carried out at Khewari (384 L. Kms), Sinjhor (25 L. Kms), and Tando Allah Yar (390 L. Kms). 804 L. Kms of 2-D seismic survey have also been carried out at Offshore Indus Block-S.

The Company also carried out 3-D seismic acquisition of 1,067 Sq. Kms, in Dhudial (140 Sq. Kms), Soghri (217 Sq. Kms), Khewari (523 Sq. Kms) and Thal South (187 Sq. Kms). The Company could not start activities in 12 of its concessions which constitute 32% of total acreage held by the Company due to security reasons.

During the period under review, Company spudded 31 new wells including 13 Exploratory / Appraisal and 18 Development wells. Exploratory / Appraisal wells have been spudded at Sono Deep-1 (Sono Lease), Pakhro-1 (Nim Concession), Reti-1 (Guddu Concession), Kunnar South-1 (TAY Concession), Kunnar Deep-5, 6 & 7 (Kunnar Lease), Nashpa-1 (Nashpa Concession), Thora Deep-2 (Thora Lease), Moolan North-1 (Lashari Lease), Bitrism-1 (Bitrism Concession), Khawaja-1 (Gurgalot Concession) and NurDeep-1 (Nur Lease). Development wells have been spudded at Thora-7, Punjpir-7, Nandpur-10, Qadirpur 30, 31, 32, 33 & Qadirpur HRL-2, Tando Alam 16-A, Sara West-2 & 3, Kal-3, Kunnar-7 & 8, Kunnar Deep-8, Pasahki-5, Bahu-4 and Bagla-2. Workover jobs on additional 12 wells were also carried out.

OGDCL is regularly evaluating opportunities for overseas exploration to expand its activities that may offer attractive exploration and development potential. The Company participated in the 4th bidding round of Libya and evaluated exploration blocks in Angola and Mozambique. Technical evaluation and exploration potential review of Mauritania, Mali and Turkey was also finalized during this period. Evaluation of available data is in hand to participate in the 7th bidding round in Algeria.

## NON-OPERATED JOINT VENTURE (JV) ACTIVITIES

### TAL Block

MOL Pakistan Oil & Gas is the Operator of TAL Block, OGDCL's share is 30% in exploration and 27.76% in production phase. Four wells namely Makori-2, Manzalai-6, Mamikhel-1 and Manzalai-5 were spudded during the year. Manzalai-6 has been tested with a production potential of over 50 MMcf per day of gas whereas Mamikhel-1 has been a new discovery with 46 MMcf per day of gas and 2,881 barrels per day of condensate. During the year OGDCL's share from extended well testing (EWT) from Manazalai and Makori wells was 253,990 barrels of oil and 6,210 MMcf of gas. Work on field development is in progress and it is expected that production target of over 250 MMcf per day of gas and 6,000 barrels per day of oil will be achieved by April 2009.

### Miano Field

OMV is the Operator of Miano field with 17.68%, OGDCL's share is 52%. During the year two wells namely Miano-2 sidetrack and Miano-7 sidetrack were drilled in the field. Detailed engineering of Miano Wellhead Compression Project (Phase-1) and Factory Acceptance Test (FAT) have already been completed. The commissioning of first and second compression unit is expected to be installed by the end of October 2008. The phase-II of Miano Wellhead Compression Project is expected to be completed by June 2009. During the year OGDCL's share in gas production was 16,386 MMcf.

### Pindori Field

POL is the Operator of this field with 35% share, OGDCL holds 50%. Pindori Well-7 was drilled during the year where drilling is still continuing. The Operator conducted few scale removal jobs which enhanced the production from the existing wells. Operator is also carrying out Pindori reservoir study. OGDCL's share in production is 359,355 barrels of oil, 1,612 MMcf gas and 7,144 M. Tons LPG.

### Bhit, Badhra and Kadanwari Fields

Eni Pakistan Ltd. (ENI) is the Operator of these three fields and holds 18.42% share in Kadanwari and 40% in the other two fields. OGDCL holds 50% in Kadanwari and 20% in the other two fields. Three wells namely Kadanwari-17, Bhit-11 and Badhra South-1 were drilled during the year. Common Reflection Surface Stack (CRS) and interpretation of 3-D seismic data of Bhit field was completed. Work on dynamic data preparation for 3-D model of Bhit field is on-going. OGDCL's share in oil was 21,413 barrels and in gas was 28,730 MMcf.

### Badin-II, Badin-II Revised and Badin-III Fields

BP Pakistan Exploration and Production Inc (BP) is the Operator of Badin fields under Badin-II, Badin-IIIR and Badin-III concessions with 51%, 76% and 60% share respectively. OGDCL holds 49%, 24% and 15% share respectively. Five wells namely Buzdar South-2, Zaur-5, Jabo-9, Jabo SWD-2 and Zaur-14 have been drilled during the year. To boost the gas production from the fields work on Jalal-D Compression, Zaur Screw Compressor and Zaur Gas Reinjection Compressor in process. During 2007-08, OGDCL's share in oil production was 462,173 barrels and gas was 13,892 MMcf.

### Dhurnal, Bhangali and Ratana Fields

Orient Petroleum International Inc. (OPII) is the Operator of these fields. OGDCL's share in these fields is 20%, 50% and 25% respectively. The Operator is working on feasibility of Enhanced Oil Recovery (EOR) to enhance production from Dhurnal and Bhangali fields. During the year OGDCL's share in production was 43,204 barrels of oil, 300 MMcf of gas and 175 M. Tons of LPG.

### Sari South E.L.

Saif Energy Pvt. Ltd. (SEL) is the Operator of this Block with 30% share. OGDCL holds 50%. 2-D Seismic acquisition was initiated in the area during the year 2007-08, which is still in progress.





#### Badar Field

Pakistan Exploration Pvt. Ltd. (PEL) is the Operator of Badar gas field with 50% share and the remaining 50% share is owned by OGDCL. The new acquired and processed seismic data along with the old processed data is being interpreted for evaluating new prospects in the field. During the year OGDCL's share in gas production from the field was 2,759 MMcf.

#### DISCOVERIES

(1) OGDCL's exploratory efforts yielded the following five (5) crude oil and gas/condensate discoveries in the financial year 2007-08:

##### i) Moolan

Moolan Well-1 was discovered on November 15, 2007. The well is located in Lashari D&PL, district Hyderabad, Sindh Province and has been tested to produce 64 barrels per day of condensate and 4.4 MMcf per day of gas from zone-I and 165 barrels per day of condensate and 6.02 MMcf per day of gas from Zone-II.

##### ii) Pasahki East

Pasahki East Well-1 was discovered on January 25, 2008. The well is located in Tando Allah Yar Concession, district Hyderabad, Sindh Province and has been tested to produce 155 barrels per day of condensate and 10.7 MMcf per day of gas.

##### iii) Moolan North

Moolan North Well-1 was discovered on April 17, 2008. The well is located in Lashari D&PL area, district Hyderabad,

Sindh Province and has been tested to produce 1,150 barrels per day of crude oil.

##### iv) Pakhro

Pakhro Well-1 was discovered on April 21, 2008. The well is located in Tando Allah Yar Concession district Hyderabad, Sindh Province and has been tested to produce 8.25 MMcf per day of gas and 9 barrels per day of condensate.

##### v) Dhodak Deep

Dhodak Deep Well-1 was discovered in June 2008. The well is located in Dhodak mining lease in Dera Ghazi Khan district of Punjab Province and has been tested to produce 5.5 MMcf per day of gas.

(2) Subsequently, in July 2008, OGDCL has made another gas/condensate discovery at Kunhar South-1. This well is located in Tando Allah Yar E.L, district Hyderabad, Sindh Province and has been tested to produce 11 MMcf per day of gas and 200 barrels per day of condensate.

#### ONGOING AND FUTURE DEVELOPMENT PROJECTS

##### UCH-II Development Project

The UCH Gas field is located about 67 Kms South-East of Dera Bugti in Balochistan Province. The Company has drilled 15 wells and is supplying 106,000 million BTU gas per day to UPL Power Plant. After carrying out detail study of UCH Gas field, it is envisaged that OGDCL is in a position to commit 200-220 MMcf per day of gas for 14 to 16 years to a new power producer. After the completion of the project, the sale gas from Uch will be enhanced from 250 MMcf per day to 450 MMcf per day. The project



is expected to be completed in 18 months period subject to security clearance and LOI issuance by PPIB.

#### Qadirpur Gas Capacity Enhancement and Compression Projects

The Qadirpur field is located 8 Kms from Ghotki in Sindh Province. The partners in the Qadirpur Joint Venture are Oil & Gas Development Company Limited (OGDCL) 75%, Kufpec Pakistan Holdings B.V. (KUFPEC) 8.5%, Pakistan Petroleum Limited (PPL) 7%, PKPEL 4.75% and PKPEL2 4.75%.

#### Capacity Enhancement Project

Joint Venture is currently committed to supply an average of 450 MMcf per day of gas from the field to SNGPL. The average production from the field has hovered around 500 MMcf per day of gas during the year on operating days. Based on in-house reservoir study of the gas field, Qadirpur Joint Venture is in a position to commit 100 MMcf per day additional gas from the field. The work for capacity enhancement to deliver the 100 MMcf per day of gas has already been started. The project has achieved 78% overall completion with expected completion date by December 2008.

#### Compression Project

The field is expected to start depleting in near future and in order to maintain the plateau, compression facilities are required to be installed, which will help maintain the production plateau to 650 MMcf per day of raw gas and maintain gas supply up to year 2017. The contract for engineering, procurement and construction on lump sum turn key (LSTK) basis was awarded in November 2006, however, activities are held up due to litigation in Sindh High Court. In order to mitigate the delay in front end compression, initial feasibility for wellhead compression was carried out and the Engineering and Project Management Consultant has recommended that wellhead compression is feasible for a period of 3 years. Tender documents for EPC contract are scheduled to be issued in near future with wellhead compression expected to be completed in September 2009. Wellhead Compression will help mitigate the exposure in the interim due to pending litigation in Sindh High Court.

#### Dakhni Expansion Project

Dakhni Gas Processing started commercial production in early 1990 with a design capacity of 30 MMcf per day. Over the years the composition of H<sub>2</sub>S contents of raw gas has increased considerably resulting processing limitation on the existing plant. Due to this change the existing plant is currently processing 18-20 MMcf per day of sour feed gas. The incremental production after expansion will be sales gas: 12 MMcf per day, condensate: 720 barrels per day, sulphur: 80 M. Tons per day and LPG: 12 M. Tons per day. Contract for supply of SRU signed with M/s Presson Descon International Limited. Dakhni Expansion Project is expected to be completed by December 2009.

#### Tando Allah Yar Development Project

The Tando Allah Yar (TAY) field is located in Hyderabad district of Sindh Province. Presently 17 wells have been

drilled out of which 11 are producers. The processing facilities including gas sales line will be installed to produce 28 MMcf per day of sales gas, 2,500 barrels per day of crude oil and 85 M. Tons of LPG per day. It is joint venture between OGDCL- 77.5%, GHPL-22.5%. The matter is under litigation with honorable Supreme Court of Pakistan.

#### Sinjhor Development Project

The Project is located at district Sanghar, Sindh. The surface facilities to be installed by the Company include gas gathering system for 15 wells, field compression, transport pipeline to produce 2,940 barrel per day of crude oil, 25 MMcf per day of gas and about 224 M. Tons per day of LPG. It is joint venture between OGDCL-76%, OPII-19% & GHPL-5%. The matter is under litigation with honorable Supreme Court of Pakistan.

#### Kunnar & Pasahki Deep Development Project

The Kunnar & Pasahki Deep Development Project is in Hyderabad district about 25 Kms away from Hyderabad in Sindh Province. The field is being developed by installing processing facilities including gathering system, transport pipeline to produce gas: 250 MMcf per day, crude oil: 3,200 barrels per day and LPG: 250 M. Tons per day. The project is expected to be completed in 18 months after award of contract.

#### Sara West Development Project

The Sara West field, located in district Khairpur, Sindh Province, was discovered in 1996. So far three wells have been drilled at the field. The field has gas of low hydrocarbon contents and can be used for power generation only. The Company intends to develop the same for supply of gas to a power generation company.

#### Jhal Magsi Project

Jhal Magsi field located in Dera Murad Jamali was discovered in 2003. It is a joint venture between OGDCL- 66.5%, POL- 28.5% & GHPL-5%. Three wells have been drilled at the field with two producers. The field has high contents of H<sub>2</sub>S which would require removal before the gas is injected into the transmission network. The commerciality of the field is under review.

## RESERVES

As a national E&P company, OGDCL possess its hydrocarbon reserves base in all four (04) provinces of Pakistan. OGDCL is proud of its underground hydrocarbon reserves and its ability to bring these reserves on stream. The reserves replacement ratio of OGDCL is in excess of 100% for the last four years indicating growth of the Company through its extensive and accelerated E&P activities. OGDCL made five new oil and gas discoveries during the year ended June 30, 2008. The oil reserves addition of 1.604 million barrels has been made in Moolan North discovery. The reserves of Dhodak Deep are under appraisal while the reserves of Thora Deep, Moolan, Pakhro and Thora East are currently under evaluation.

During 2007-08, some upward and downward revision in oil and gas reserves took place which resulted in



net increase of 3.27 million barrels of oil reserves and 121.73 billion cubic feet of gas reserves. Major upward revision in oil reserves during the year was done based on production performance evaluation of Chak 5 Dim South, Dhamrakhi, Kal and Mela fields. Major downward revision in gas reserves was made based on production performance of Dhodak field in addition to reassessment of reserves of Bobi, Bahu and Dars fields. Other upward revision in gas reserves during the year was in Mela, Unar and Uch fields.

OGDCL’s remaining recoverable reserves on 3P basis excluding OGDCL’s share in non-operated JV fields as of June 30, 2008 stood at 148.90 million barrels of oil and 10,600.45 billion cubic feet of gas. These reserves are updated from Reserves Evaluation Study–2006 conducted by D&M Canada for all OGDCL operated fields except reserves of Bhulan Shah, Bhal Syedan, Chak-66 NE, Pasahki NE, Dachrapur, Dakhni Deep, Moolan North, Dars Deep and Chandio which are based on in-house assessment. Thora Deep, Dhodak Deep, Pakhro and Moolan are under evaluation. Sinjhoru reserves are taken from PGS study-2004.

### PRODUCTION

OGDCL is pursuing its strategy of enhancing its production base and maintaining sustained growth in crude oil and gas production by ensuring early and expeditious production from crude oil and gas discovered fields in the close proximity of existing producing fields and facilities. The Company is also making efforts to maintain and enhance production from existing fields through workovers and employing latest technologies and different secondary recovery techniques to optimize production. In this regard, extensive development drilling, workovers, and improvements of field operational efficiencies are in progress. Additionally, Company during the year has promptly completed annual turn around work at various fields and plants including Qadirpur, Uch, Dakhni, Kunnar, Bobi and Dhodak. Despite decrease in share of crude oil

and gas production from non-operated joint venture fields and disturbances due to unfortunate incident in the last week of December 2007 in the southern region, and security concerns in the fields located in Balochistan, Company’s net production of crude oil and gas on working interest basis increased by 1,931 barrels per day and 29 MMcf per day respectively over the previous year.

During the year, OGDCL’s daily net production of crude oil, gas, LPG and sulphur averaged 43,434 barrels, 976 MMcf, 339 M. Tons and 72 M.Tons respectively. Thirteen (13) more wells were put on regular production and workover jobs on twelve (12) wells were carried out to sustain production. Company’s crude oil production was in line with the targets set for the year. However, gas production was below target due to less in-take by the buyers and frequent sabotage activities and delay in completion of 100 MMcf per day of gas Qadirpur Gas Enhancement Project.

During the year under review, crude oil production on gross basis from 100% owned and operated JV fields grew by 13.9% over the previous year mainly due to start of production from Mela-2, Chanda-2, Pasahki North East-1, Moolan North-1 and Chak-66 North East-1 in addition to increase in production from Kunnar, Bobi, Rajian, Dakhni and Tando Alam fields. Share of production from non-operated joint venture fields decreased by 17.1% resulting increase in crude oil production on working interest basis by 4.7% over 2006-07.

OGDCL’s gas production on gross basis from its 100% owned and operated JV fields including production from subsidiary company increased by 6.1%. This increase is mainly due to enhanced production from Dakhni, Loti, Uch, Bobi and Qadirpur fields and start of gas production from Mela field. Share of gas production from non-operated JV fields decreased by 5.6% resulting increase in Company’s gas production on working interest basis by 3.1% over the previous year.

During the year, OGDCL’s average daily production on working interest basis was as follows:

Products	Own Fields	Share in Operated JVs	Share in Non-Operated JVs	Total
Crude Oil (Barrels / day)	29,361	7,992	6,081	43,434
Gas (MMcf / day)	351	411	214	976
LPG (M. Tons / day)	245	11	83	339
Sulphur (M. Tons / day)	72	-	-	72

- Daily production has been worked out at 366 days per annum.
- Gas production includes production of 18 MMcf per day of gas from subsidiary company, Pirkoh Gas Company (Pvt) Limited.





## SUBSIDIARY COMPANY

Pirkoh Gas Company (Pvt) Limited (PGCL) is a private limited company which was incorporated in 1982. The Company is engaged in exploration and development of natural gas resources, including production and sale of natural gas with related activities. The Company is wholly owned subsidiary of OGDCL.

Operations at the Pirkoh Gas Field were partially suspended on different occasions during the year due to law and order situation in the area. Gas production was slightly decreased mainly due to natural depletion of the field during the period in review. Due to prevailing law and order situation in the area, the exploration activities regarding drilling of deep exploratory well, seismic survey, field development and production enhancement (rig-less and with rig workovers) could not be carried out during 2007-08. However repair of damaged wellhead, infrastructure, header and gathering system has been completed during the year using in-house capabilities.



Company's sales revenue decreased to Rs 463 million compared with Rs 472 million during the previous year. This decline is mainly due to natural depletion of the field. Decrease in sales revenue was partially offset by the other income of Rs 770 million which also decreased by Rs 43 million compared with last year. Decline in sales revenue and other income totaling to Rs 53 million coupled with tax provision for prior years amounting to Rs 326 million and increase in operating expenses by 66 million resulted into net loss of Rs 280 million during the year under review against net loss of Rs 145 million in 2006-07.

The Board of Directors of Oil and Gas Development Company Limited (OGDCL) has approved the merger of Pirkoh Gas Company (Pvt) Limited with its Parent Company (OGDCL).

## BOARD OF DIRECTORS

The Board comprises of twelve Directors including the Chairman. During the year under review, composition of the Board has changed due to appointment of Mr. Irshad Ahmed Kaleemi as Director in place of Mr. Jalaluddin Qureshi with effect from February 02, 2008. Subsequently, Mr. Zahid Hussain was appointed as Managing Director of OGDCL Board in place of Mr. Arshad Nasar, who relinquished the charge of Chief Executive Officer on July 11, 2008. We accord Board's appreciation for the contribution and services rendered by Mr. Arshad Nasar as Chief Executive Officer. The Board also wishes to record its appreciation for the contribution and services rendered by late Mr. Jalaluddin Qureshi who expired on August 23, 2007. May Allah rest his soul in peace and give courage to the members of bereaved family to bear this loss. The Board also extends a warm welcome to Mr. Zahid Hussain and Mr. Irshad Ahmed Kaleemi as new members on the Board of Directors.



The Board presently comprises the following Directors:

Mr. Arshad Nasar	Chairman
Mr. Zahid Hussain	Managing Director/CEO
Mr. Muhammad Naeem Malik	Director
Mr. Irshad Ahmed Kaleemi	Director
Mr. Sikander Hayat Jamali	Director
Mr. Alman Aslam	Director
Mr. Asad Umar	Director
Mr. Aslam Khaliq	Director
Mr. Azam Faruque	Director
Mr. Khalid Rafi	Director
Mr. Zahid Majid	Director
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Director

## Meetings of the Board

Six meetings of the Board of Directors were held between July 01, 2007 and June 30, 2008 and the attendance of each Director is given below:

Name of Director	Total No. of Meetings (*)	Meetings Attended
Mr. Arshad Nasar, (Chairman & former CEO)	6	6
Mr. Zahid Hussain, (Managing Director / CEO)	-	-
Mr. Muhammad Naeem Malik	6	5
Mr. Irshad Ahmed Kaleemi	3	3
Mr. Sikander Hayat Jamali	6	3
Mr. Alman Aslam	6	4
Mr. Asad Umar	6	6
Mr. Aslam Khaliq	6	4
Mr. Azam Faruque	6	4
Mr. Khalid Rafi	6	6
Mr. Zahid Majid	6	4
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	6	1
Mr. Jalauddin Qureshi (former Director)	1	1

\* Meetings held during the period concerned directors were on the Board.

## COMMITTEES OF THE BOARD

### Audit Committee

The Audit Committee has been constituted by the Board of Directors as required under the Code of Corporate Governance and comprises five (5) non-executive directors of the Company. The Committee meets at least once every quarter of the year prior to approval of interim results of the Company by the Board of Directors. Additional meetings are held to review and discuss other matters as required under Terms of Reference or as assigned by the Board. The Terms of Reference of the Audit Committee are approved by the Board of Directors with the requirements of the Code of Corporate Governance contained in the listing regulations of the stock exchanges. In brief, the purpose of Audit Committee is to assist the Board of Directors in providing an independent overview of the Company's

system of internal control and financial reporting process through supervision of quality independence and effectiveness of both internal and external auditors.

To meet its purpose, the Audit Committee reviews quarterly, half yearly and annual financial statements before submission to the Board, besides review and recommend it for Board's approval, write off of stores, stocks, advances and other receivables, determine compliance with the relevant statutory disclosure requirement. The Audit Committee recommends the appointment of external auditors, their audit fee and reviews the quality of work and performance of external auditors at least once during each year. It also reviews summary of the management letters and management's response. The Audit Committee reviews the reports of internal audit department on the effectiveness of



control and ensures that the Management responds to weaknesses and issues highlighted in both internal and external audit reports. The Audit Committee may investigate any activity within its Term of Reference and may direct either external or internal auditors to undertake or commission any investigation and may seek

any information from any employee.

During the year under review, four meetings of the Audit Committee were held and attendance by its members was as follows:

Name of Director	Total No. of Meetings (*)	Meetings Attended
Mr. Khalid Rafi	4	4
Mr. Aslam Khaliq	4	3
Mr. Zahid Majid	4	2
Mr. Jalaluddin Qureshi (former Director)	1	1
Mr. Alman Aslam	4	3
Mr. Irshad Ahmed Kaleemi	1	1

\* Meetings held during the period concerned directors were on the Committee

#### Finance Committee

Finance Committee of the Board comprises six (6) Directors including the Chairman and MD/CEO. Terms of Reference of the Finance Committee include recommendation and review of financial targets, annual and quarterly budgets, analysis of variances with the budget, procurement of plant machinery and store items and award of contract exceeding the powers delegated to Managing Director / Chief Executive Officer, investment of surplus funds of the Company, request for borrowing of money, financial policies and controls including the policies required under the Code of Corporate Governance, and consideration of any other issue or matter as may be assigned by the Board of Directors.

#### Human Resources Committee

Human Resources Committee of the Board comprises six (6) Directors including the Chairman and MD/CEO. The Committee is responsible for approval of appointments /promotions to EG-VIII & EG-IX, recommendations for appointment/promotions beyond EG-VIII and above, Guidance/recommendations for CBA agreements, restructuring of the organization, review of compensation package, review of HR policies including the policies required under the Code of Corporate Governance, and consider any other issue or matter as may be assigned by the Board of Directors.

#### Technical Committee

Technical Committee of the Board comprises seven (7) Directors including the Chairman and MD/CEO. Technical Committee is responsible for approval of exploration licenses and related work programmes within budgetary provisions, recommendations for farm-in and farm-out in concessions and participation in offshore and overseas opportunities, recommend / review the physical targets,

formulation of technical policies required under the Code of Corporate Governance, and consider any other issue or matter as may be assigned by the Board of Directors.

#### AUDITORS

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s M. Yousuf Adil Saleem & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2008 and shall retire on the conclusion of Eleventh Annual General Meeting.

In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the re-appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants, and M/s M. Yousuf Adil Saleem & Co., Chartered Accountants, as joint statutory auditors for the year 2008-09 and the Board of Directors also endorsed the recommendations of the Audit Committee.

#### CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and the Board of Directors is accountable to the shareholders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Company remains committed to conduct its business in line with listing regulations of the Stock Exchange, which clearly define the role and responsibilities of Board of Directors and Management. The Board has already approved the Vision, Mission, Core Values, Code of Ethics & Business Conduct and some of the policies have been finalized



while other are in the process of preparation.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- 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. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of the last 10 years in summarized form is annexed.
- Value of investments, including bank deposits, of various funds as at June 30, 2007, based on their respective audited accounts, is as under:
  - Pension and Gratuity Fund Rs 8,414.271 million
  - General Provident Fund Rs 1,332.183 million
- All major Government levies in the normal course of business, payable as at June 30, 2008, have been cleared subsequent to the year end.

## PATTERN OF SHAREHOLDING

The pattern of shareholding as on June 30, 2008 is annexed.

## CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements of the Company and its 100% owned subsidiary namely Pirkoh Gas Company (Pvt) Limited are annexed.

## INTERNAL AUDIT AND CONTROL

The function of Internal Audit in OGDCL is catered through an independent in-house Internal Audit Department to assist the Board of Directors and the Management in maintaining and constantly improving internal controls in accordance with business risks assessment. Internal Audit Department is headed by a full time employee of the Company functionally reporting to Chairman Audit Committee and administratively to Managing Director/CEO of the Company accordingly. The performance of the Internal Audit Department is monitored through

Audit Committee of the Board of Directors. The scope of the Department has been defined by the Board as recommended by the Audit Committee and the Department's head has free and unfettered access to Management Information needed to carry out its work on behalf of Audit Committee besides the Chairman of the Audit Committee, members of Board/employee and other persons.

The function of the Internal Audit Department includes independent assurance that controllable business risks are being managed with effective control to ensure that adequate controls exist within the Company's systems and activities by having continuous reviews, bringing deficiencies and weaknesses in the system and procedures to the notice of the Management and the Audit Committee and suggest remedial steps to address those weaknesses, recommend changes in the policies, systems and procedures in order to ensure systems and activities achieve their objectives. Follow up the implementation of agreed actions, advise management cost effective controls and highlight opportunities to reduce cost through greater economy and efficiency within systems and activities. Facilitate the annual risk analysis and assist the Management in the corporate governance reporting process, carry out review work, special audit and investigations advised as and when required by the Audit Committee and Management and liaise and coordinate with external auditors and Government Auditors to ensure that assurance from both internal and external resources is provided effectively.

## HUMAN RESOURCE DEVELOPMENT

OGDCL with a well-thought strategy and committed workforce of around 11,000 is actively involved in achieving the desired goals. Management is putting forward its efforts to develop high performing workforce to do more towards Company's growth and accomplishments. Focus is on Human Resource Development, taking into account the industry norms and to bring in a change. Therefore, several HR Policies including Promotion and Increment, Training Business Plan, Leave, Travel and Expenses, Recruitment and Selection, Performance Management, Exit Interview etc have been reviewed, developed and implemented in OGDCL. The core activities of HR including re-structuring OGDCL's Organogram in line with Company's strategic plan, revision of pay package, HR budget, training budget and integration of Oracle HRMS and Oracle payroll modules have been performed during the period. Management's relations with CBA remained friendly and industrial peace prevailed at all locations during the year. The agreement with CBA has been successfully concluded and is being implemented.



## TRAINING AND DEVELOPMENT

Petroleum Research and Training Institute (PRTI) established since 1979, provides wide range of upstream training programs to meet the training needs of OGDCL and other E&P Companies of Pakistan as well. Petroleum Industry graduates and technicians are provided basic training upon induction. Refresher and advanced trainings for experienced professionals are arranged after identifying diverse training needs of the Company, in coordination/collaboration with the technical departments. Also in-house technology update seminars, inviting outside professionals/expertise, to facilitate absorption of state-of-the-art techniques are organized.

During the year under review, 105 geoscientists, engineers and technicians belonging to 11 different groups completed their 11-months basic training in November, 2007. Classroom training comprised of courses in Technical, IT, HSE and Management. Also, the trainees were sent for on-job training on different fields/locations. A new batch of 212 trainees belonging to 19 different groups joined during the months of December 2007 and January 2008 for 11-months training program. A comprehensive training program for these trainees is underway and is scheduled to be completed by December 2008. A group of 22 special trainees from Dera Bugti is currently undergoing two-year training program. These trainees belong to OGDCL, PPL, SNGPL and SSGC. Refresher courses for about 1150 professionals of OGDCL and other E&P companies were arranged to improve their Technical, IT, HSEQ and Management skills. It included courses on DSL, Lotus Notes and Domino Administration and were conducted by PRTI and outside instructors. In addition, about 200 professionals were nominated to attend seminars and conferences conducted by various agencies. Specialized courses on "Drill Stem Testing" and "Well Log Interpretation" were arranged at PRTI for professionals of Production and Reservoir Management Departments in collaboration with M/s Schlumberger. Special guest speaker from Canada, Dr. Peter B. Jones conducted a one-week course on "Petroleum Exploration in Fold & Thrust Belts" whereas a special course titled "Applied Marine Geology and Offshore Framework for Pakistan" was conducted by Mr. Javed Iqbal, a renowned expert from Canada. About 50 professionals of Exploration department benefited from these courses.

## INFORMATION TECHNOLOGY (IT)

OGDCL continued its efforts to modernize and strengthen Company's IT infrastructure and services during the year. A project for broad band data connectivity with the major production fields has been started using country-wide fiber optics facility of PTCL. This will provide a faster WAN

(Wide Area Network) link between the Head Office and the fields that will facilitate timely exchange of operational information. In tandem with this exercise, Wi-Fi networks are also being established at these fields to provide IT services to remote users locally. With three major fields already covered, the exercise for a total of ten fields will be completed in next few months.

As part of a comprehensive disaster recovery plan for Company's information systems, a secondary data center has been established. Under a phased program, backup of all critical IT Systems and Services will be deployed at this center to ensure availability of these services in case of disastrous situations at the primary location.

Also, a project to upgrade existing data center at the Head Office with induction of new technologies in terms of Blade Servers, Storage Area Network (SAN), Network Security Firewalls and Intrusion Prevention Systems (IPS) has been initiated. The project is expected to be completed by the end of 2008.

## ORACLE ENTERPRISE RESOURCE PLANNING (ERP)

In pursuance to its commitment to improve financial information systems, the Company after implementing state-of-the-art ERP in July 2003 for the business functions like Financials and Supply Chain Management, has implemented Oracle Human Resource Management System (HRMS) during the year 2007-08. Oracle payroll has also been implemented in July 2008. To ensure the preparation of budgets through the information system and timely availability of reliable and accurate information so as to facilitate the decision making process, and for corporate governance, the Company is further implementing other Oracle ERP modules (Oracle Public Sector Budgeting, Oracle Enterprise Planning and Budgeting, Oracle Daily Business Intelligence, Oracle Treasury, and Oracle Internal Control Manager).

## HEALTH, SAFETY, ENVIRONMENT AND QUALITY (HSEQ)

In order to promptly address the growing and multitask needs of the Company pertaining to health, safety, environment, and quality management systems, the HSEQ Management System has been integrated for managing risks within the Company to assure the protection of the Company's people, assets and reputation. Now at OGDCL, Health, Safety and Environmental (HSE) responsibilities are integral to the way we operate. In carrying out all our activities, we ensure the welfare of communities, the protection of ecosystems and the safeguard of workforce. Enlisted follows are exemplary evidence how committed we have been throughout the year.





In year 2007-08, our two fields/plants have achieved compliance to OHSAS 18001 and ISO 14001 as Implementation Projects at Qadirpur Gas field/plant and Dhodak Condensate field/plant have successfully completed while ISO 9001 and ISO 17025. Implementation Project at G&R Laboratories, Islamabad is also on the move. In addition, compliance projects have also started at other major fields and plants by initiating the HSE risk identification and assessment process.

Environmental studies of all new seismic and drilling projects were conducted in record time and timely submitted to the relevant Environment Protection Agencies for acquisition of NOC to formally commence the project activities. The proposed project activities were reviewed and their potential impact on the area's natural, socioeconomic, and cultural environment was assessed using both qualitative and quantitative assessment methods. Mitigation measures were also presented to keep the adverse environmental impact within acceptable limits. EHS audits of production fields, plants, rigs and seismic parties were conducted both by internal teams as well as the regulatory bodies. In addition, HSEQ Department scheduled and conducted first-ever formal internal HSE audits of Qadirpur and Dhodak fields/plant based on PDCA cycle.

The Company has recently adopted a systematic and proactive behavioral program that provides appropriate HSE training and encourages participation of all employees to safely perform their duties with the objective of preventing occupational injuries, illness, losses due to accidents, and protection of environment. In this perspective, the first 5-day in-house HSE Field Workshop on "Implementation of Health, Safety, and Environment Management System: A Practical Roadmap for Field Personnel" was arranged

from June 10 to 14, 2008 at one of the key establishments of OGDCL – Tando Alam Oil Complex (TOC).

### CORPORATE SOCIAL RESPONSIBILITY

The Company endeavors to be a responsible corporate entity of the E&P Community. Taking cognizance of its social responsibilities, OGDCL has always played proactive role in promoting, developing and maintaining medical, educational, environmental and welfare programmes for the benefits of local communities affected by its work and presence which inter-alia include employment opportunities for locals, construction of roads, setting up dispensaries, schools, award of scholarships, supply of drinking water, donations for charitable causes and financial assistance for development projects. Significant activities undertaken during the year 2007-08 are enumerated as under:

#### Medical

We firmly believe that healthcare is an absolute pre-requisite for sustainable socio-economic development. Our healthcare initiatives are spread over all the four provinces where free healthcare services are provided to the inhabitants of operational areas. In this connection, OGDCL's public welfare dispensaries located at various locations provided free consultation and medications to approximately one million patients around its oil and gas producing fields such as Pirkoh, Loti, Uch, Bobi, Tando Alam, Kunhar, Qadirpur, Dhodak, Nandpur, Missakeswal, Fimkassar, Dakhni and Chanda. Three free eye camps were organized at Qadirpur, Chanda and Bobi fields where 2,200 patients were examined for treatment. 300 patients were registered at ODGCL's T.B Clinics at Tando Alam and Bobi fields.



## Education

Training and education is a building block for change. OGDCL supports education initiatives directed at the communities in which it operates. OGDCL's two technical training schools at Quetta and Karak are imparting trainings in Petroserve disciplines where two hundred students were awarded certificates to seek employment in different oil companies. New sessions have started and two hundred fresh students enrolled for technical training in these two schools. Vocational school for girls at Tando Muree registered 50 students for stitching and embroidery etc. OGDCL granted scholarships to the students of Pirkoh Gas Field and Chanda Oil Field areas as these two locations are extremely remote areas where education is required to be promoted and supported. OGDCL has also provided free pick & drop facility to the students in the areas like Pirkoh, Tando Alam, Kunnar, Dhodak, Fimkassar, Toot, and Dakhni.

## Water Supply

OGDCL is playing its active role in supplying clean, potable water to the inhabitants of its operational areas through various water supply schemes at Chanda, Mela, Pirkoh, Loti, Uch, Tando Alam, Bobi and Hundi / Sari.

## BUSINESS RISKS AND CHALLENGES

In this growing age of complexity, OGDCL is exposed to operational risks including but not limited to international oil prices, exchange rate, discovery success/failure, depletion of production at key fields and rising exploration costs and legislation in addition to non-operational risks like political, economic, environmental and most importantly the law and order situation, etc.

Management of the Company understands its responsibilities as leading national E&P Company with largest oil and gas reserves, strong production base, largest exploration acreage spread over all four provinces and offshore. Management strives its best to cope with the given challenges with its strong core of trained and experienced professionals, sound equipment base and strong financial position.

## FUTURE OUTLOOK

OGDCL has a strong vision and passion to do more in the E&P sector to enhance energy security of Pakistan. With a strong presence in the length and breadth of the Country, it is looking beyond geographical boundaries for E&P opportunities and is actively pursuing overseas joint ventures with other E&P companies. With technical prowess in the onshore exploration and production it has changed focus to a more challenging area i.e., offshore exploration. OGDCL is actively participating in both

national and on selective basis in international bidding rounds for acquiring more acreage.

During 2007-08, OGDCL maintained sustained growth in terms of its operating and financial performance. Company's operational achievements were mainly driven by its strategies of adding oil and gas reserves through accelerated exploration and expeditious production through timely development of newly discovered fields. These strategies will further strengthen Company's production base and with favorable price environment, we anticipate strong financial results in the years ahead which will help the Company in carrying out its exploration and development activities set out in its Business and Strategic Plan. Our exploration, development and production strategies backed by strong financial position will help in adding significant value for the shareholders in the year to come.

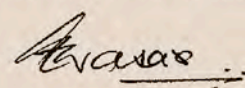
## ACKNOWLEDGEMENTS

We are grateful to our shareholders, customers, suppliers, contractors and joint venture partners for their ongoing relationship and persistent support towards the progress of the Company.

We are also proud of all the employees of the Company and appreciate their dedication, diligence and determination and appreciate their contributions to the results achieved by the Company during the year. The Board also places on record its appreciation for the supportive and encouraging policies of the Government particularly the Ministry of Petroleum and Natural Resources.

In the end, I would like to thank my fellow Board members for their untiring efforts in directing the Company's course and maintaining its growth.

On behalf of the Board



(Arshad Nasar)  
Chairman

August 20, 2008



## Pattern of Shareholding as at June 30, 2008

Total Shareholders	Shareholding		Number of Shares held
1,643	1	100	78,599
14,210	101	500	6,813,179
8,471	501	1,000	8,252,839
5,744	1,001	5,000	13,098,153
803	5,001	10,000	6,026,063
483	10,001	20,000	7,085,479
200	20,001	30,000	5,092,959
90	30,001	40,000	3,145,167
87	40,001	50,000	3,997,188
67	50,001	75,000	4,168,453
71	75,001	100,000	6,467,035
57	100,001	150,000	7,201,249
44	150,001	200,000	7,756,405
15	200,001	250,000	3,400,274
14	250,001	300,000	3,881,734
22	300,001	400,000	7,837,173
20	400,001	500,000	8,966,449
11	500,001	600,000	6,070,758
17	600,001	700,000	10,967,098
6	700,001	800,000	4,414,915
6	800,001	900,000	5,006,839
5	900,001	1,000,000	4,778,900
19	1,000,001	1,500,000	23,247,831
13	1,500,001	2,000,000	23,125,377
12	2,000,001	3,000,000	28,607,274
12	3,000,001	5,000,000	46,721,765
5	5,000,001	8,000,000	32,098,353
1	8,000,001	9,000,000	8,830,000
1	9,000,001	10,000,000	9,937,300
2	10,000,001	25,000,000	31,791,956
2	25,000,001	50,000,000	66,467,760
2	50,000,001	100,000,000	107,574,756
1	100,000,001	150,000,000	131,221,000
1	150,000,001	4,000,000,000	3,656,798,120
32,157			4,300,928,400



## Categories of Shareholders as at June 30, 2008

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Individuals	31,426	78,646,051	1.83
Investment Companies	26	5,289,792	0.12
Insurance Companies	27	21,762,445	0.51
Joint Stock Companies	266	13,291,986	0.31
Banks, DFIs, NBFIs	35	24,769,074	0.58
Modarabas and Mutual Funds	25	19,754,436	0.46
Foreign Investors	125	428,640,293	9.97
Cooperative Societies	4	46,108	0.00
Charitable Trusts	22	1,045,588	0.02
Others	200	50,884,507	1.18
Government of Pakistan	1	3,656,798,120	85.02
<b>TOTAL</b>	<b>32,157</b>	<b>4,300,928,400</b>	<b>100.00</b>

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Associated Companies, Undertakings and Related Parties and Shareholders holding 10% and above shares			
Government of Pakistan	1	3,656,798,120	85.02
NIT & ICP			
National Investment Trust Ltd (NIT)	1	688,944	0.02
National Bank of Pakistan Trustee Department	4	12,797,212	0.30
Directors, Chief Executive Officer and their spouses and minor children			
Mr. Azam Faruque	1	3,105	0.00
Executives	2	3,353	0.00
Investment Companies	26	5,289,792	0.12
Insurance Companies	27	21,762,445	0.51
Joint Stock Companies	266	13,291,986	0.31
Banks, DFIs, NBFIs	35	24,769,074	0.58
Modarabas and Mutual Funds	20	6,268,280	0.14
Foreign Investors	125	428,640,293	9.97
Cooperative Societies	4	46,108	0.00
Charitable Trusts	22	1,045,588	0.02
Individuals	31,423	78,639,593	1.83
Others	200	50,884,507	1.18
<b>TOTAL</b>	<b>32,157</b>	<b>4,300,928,400</b>	<b>100.00</b>

### SHAREHOLDING:

Shares held by Government of Pakistan also include shares held in trust by the eleven elected Directors. Shares held by Mr. Azam Faruque, Director and Mr. Aftab Ahmad, Chief Financial Officer (and his wife) were purchased by them through Initial Public Offering by the Government at the rate of Rs 32 per share.



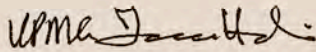
# Review Report to the Members on Statement of Compliance with the Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Oil and Gas Development Company Limited ("the Company") to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

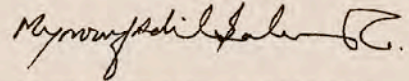
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2008.



KPMG TASEER HADI & Co.  
Chartered Accountants

Islamabad  
August 20, 2008



M. YOUSUF ADIL SALEEM & Co.  
Chartered Accountants

Islamabad  
August 20, 2008



# Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of all the three Stock Exchanges of the Country for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

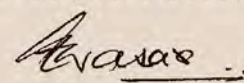
The Company has applied the principles contained in the Code in the following manner:

1. The Government of Pakistan holds more than 85% stake in the Company and nominates all the directors. All the directors are non-executive directors.
2. The Directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the Directors of the Company are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a Stock Exchange has been declared as defaulter by the Stock Exchange.
4. Vision, Mission statements and Statement of Ethics and Business Practices have been prepared and approved by the Board.
5. The Board is in the process of developing significant policies of the Company, which are in the stage of finalization.
6. A complete record of particulars of significant policies and board decisions along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration where ever applicable and terms and conditions of employment of the CEO, CFO, Company Secretary, Head of Internal Audit and other Executive Directors have been taken ratified by the Board.
8. The meetings of the Board were presided over by the Chairman and held at least once in each quarter. Written notices of Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. Where the period was short for emergent meetings it was agreed by the members of the Board. The minutes of the meetings were appropriately recorded and circulated.
9. All the directors are on the Boards of other companies and have adequate exposure of corporate matters and well aware of their duties and responsibilities. Appropriate orientation courses of the directors are being arranged in consultation with the Board.
10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters which are required to be disclosed.
11. The CEO and CFO have duly endorsed the financial statements of the Company before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholdings.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The audit committee comprises five members, including the Chairman of the committee. All members of the committee including Chairman are non-executive directors.
15. The meetings of the audit committee were held in every quarter prior to approval of the interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and duly approved by the Board and advised to the committee for compliance.



16. An independent internal audit department was established even before the incorporation of OGDCL as a public limited company and is functioning in line with the company's policies and procedures. To augment the internal control function and make it more effective, the Board has approved terms of reference of Internal Audit Department.
17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants Committee (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied except for those referred in preceding paragraphs and for that the company intends to seek compliance during next accounting year.

On behalf of the Board

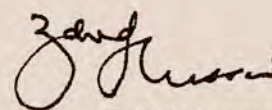


(Arshad Nasar)  
Chairman

August 20, 2008

## Statement of Compliance with the Best Practices on Transfer Pricing for the year ended June 30, 2008

The Company has fully complied with the best practices on Transfer Pricing as contained in the respective Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.



(Zahid Hussain)  
Managing Director / CEO

August 20, 2008





# Financial Statements 2008



# Auditors' Report to the Members

of Oil and Gas Development Company Limited

We have audited the annexed balance sheet of Oil and Gas Development Company Limited ("the Company") as at 30 June 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of Company's affairs as at 30 June 2008 and of the profit, its cashflows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



**KPMG TASEER HADI & Co.**

Chartered Accountants

Islamabad

August 20, 2008



**M. YOUSUF ADIL SALEEM & Co.**

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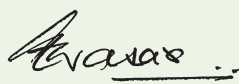


# Balance Sheet

as at 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	43,009,284	43,009,284
Capital reserve	5	2,667,064	2,438,228
Unappropriated profit		63,695,077	55,169,140
		<b>109,371,425</b>	<b>100,616,652</b>
<b>NON CURRENT LIABILITIES</b>			
Deferred taxation	6	12,370,448	11,023,916
Deferred employee benefits	7	1,528,444	1,423,132
Provision for decommissioning cost	8	6,066,716	5,151,807
		<b>19,965,608</b>	<b>17,598,855</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	17,088,050	11,122,665
Provision for taxation	10	4,143,304	-
		<b>21,231,354</b>	<b>11,122,665</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11		
		<b>150,568,387</b>	<b>129,338,172</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



	Note	2008 (Rupees '000)	2007
<b>NON CURRENT ASSETS</b>			
Fixed assets			
Property, plant and equipment	12	23,225,763	21,600,201
Development and production assets - intangible	13	36,808,041	28,749,993
Exploration and evaluation assets	14	7,672,444	6,365,706
		67,706,248	56,715,900
Long term investments	15	3,175,054	2,945,938
Long term loans and receivables	16	1,324,059	1,117,755
Long term prepayments		108,937	39,821
		72,314,298	60,819,414
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	17	16,274,079	13,178,295
Stock in trade		151,782	93,788
Trade debts	18	40,626,931	27,873,515
Loans and advances	19	2,339,037	1,538,657
Deposits and short term prepayments	20	678,789	292,928
Interest accrued		158,863	253,222
Other receivables	21	1,102,044	1,063,389
Other financial assets	22	10,207,516	13,553,959
Advance tax	10	-	5,950,713
Cash and bank balances	23	6,715,048	4,720,292
		78,254,089	68,518,758
		150,568,387	129,338,172



Chief Executive

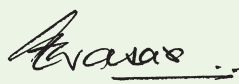


# Profit and Loss Account

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
Sales - net	24	125,445,674	100,261,191
Royalty		(17,262,493)	(10,877,443)
Operating expenses	25	(18,882,365)	(18,497,388)
Transportation charges		(1,472,615)	(1,087,931)
		(37,617,473)	(30,462,762)
Gross profit		87,828,201	69,798,429
Other income	26	8,308,684	3,615,231
Exploration and prospecting expenditure	27	(6,612,836)	(7,406,280)
General and administration expenses	28	(1,244,030)	(1,285,476)
Finance cost	29	(531,799)	(449,561)
Workers' profit participation fund	21.2	(4,387,411)	(3,213,617)
<b>PROFIT BEFORE TAXATION</b>		<b>83,360,809</b>	<b>61,058,726</b>
Taxation	30	(33,747,216)	(15,428,762)
<b>PROFIT FOR THE YEAR</b>		<b>49,613,593</b>	<b>45,629,964</b>
Earnings per share - basic and diluted (Rupees)	32	11.54	10.61

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



Chief Executive

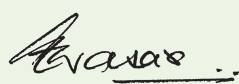


# Cash Flow Statement

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007 (Rupees '000)
<b>Cash flows from operating activities</b>			
Profit before taxation		83,360,809	61,058,726
Adjustments for:			
Depreciation		2,920,446	2,978,442
Amortization of development and production assets		4,893,235	3,637,369
Royalty		17,262,493	10,877,443
Workers' profit participation fund		4,387,411	3,213,617
Provision for employee benefits		733,559	184,852
Unwinding of discount on provision for decommissioning cost		522,699	443,699
Interest income		(2,113,078)	(3,064,607)
Unrealized loss/(gain) on investments at fair value through profit or loss		42,225	(60,386)
Dividend income		(5,068,081)	(300,653)
Fixed assets reconciliation adjustment		58,823	-
Gain on disposal of property, plant and equipment		(114,615)	(32,628)
Interest income on long term receivables		-	(61,573)
Trade debts written off		1,445	-
Provision for doubtful advances		(9,864)	(5,430)
		<b>106,877,507</b>	<b>78,868,871</b>
<b>Working capital changes</b>			
(Increase)/decrease in current assets:			
Stores, spare parts and loose tools		(3,095,784)	(2,145,541)
Stock in trade		(57,994)	(28,180)
Trade debts		(12,754,861)	(3,374,529)
Deposits and short term prepayments		(385,861)	7,332
Advances and other receivables		(680,008)	86,035
Increase in current liabilities:			
Trade and other payables		2,183,149	1,207,365
<b>Cash generated from operations</b>		<b>92,086,148</b>	<b>74,621,353</b>
Royalty paid		(13,053,066)	(9,768,793)
Employee benefits paid		(880,329)	(327,302)
Payments to workers' profit participation fund - net		(3,913,617)	(3,469,017)
Income taxes paid		(22,306,667)	(24,083,508)
		<b>(40,153,679)</b>	<b>(37,648,620)</b>
<b>Net cash from operating activities</b>		<b>51,932,469</b>	<b>36,972,733</b>
<b>Cash flows from investing activities</b>			
Capital expenditure		(18,344,330)	(16,444,905)
Interest received		2,378,260	3,466,000
Dividends received		4,452,081	300,653
Purchase of investments		(450,000)	(450,000)
Proceeds from encashment of investments		50,061	73,341
Proceeds from disposal of property, plant and equipment		214,535	35,130
Long term prepayments		(69,116)	18,200
<b>Net cash used in investing activities</b>		<b>(11,768,509)</b>	<b>(13,001,581)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(41,473,422)	(38,154,089)
<b>Net cash used in financing activities</b>		<b>(41,473,422)</b>	<b>(38,154,089)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,309,462)</b>	<b>(14,182,937)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>17,994,342</b>	<b>32,177,279</b>
<b>Cash and cash equivalents at end of the year</b>	33	<b>16,684,880</b>	<b>17,994,342</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



Chief Executive

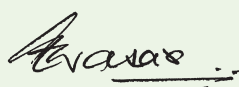


# Statement of Changes in Equity

for the year ended 30 June 2008

	Share capital	Capital reserve	Unappropriated profit	Total equity
	(Rupees '000)			
Balance at 01 July 2006	43,009,284	2,219,027	49,541,966	94,770,277
<b>Changes in equity for the year ended 30 June 2007</b>				
Final dividend 2006: Rs 3.75 per share	-	-	(16,128,482)	(16,128,482)
First interim dividend 2007: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2007: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2007: Rs 2.00 per share	-	-	(8,601,857)	(8,601,857)
Transfer to capital reserve	-	219,201	(219,201)	-
Profit for the year	-	-	45,629,964	45,629,964
Total recognized income for the year	-	-	45,629,964	45,629,964
Balance at 30 June 2007	43,009,284	2,438,228	55,169,140	100,616,652
Balance at 01 July 2007	43,009,284	2,438,228	55,169,140	100,616,652
<b>Changes in equity for the year ended 30 June 2008</b>				
Final dividend 2007: Rs 3.50 per share	-	-	(15,053,249)	(15,053,249)
First interim dividend 2008: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2008: Rs 2.00 per share	-	-	(8,601,857)	(8,601,857)
Third interim dividend 2008: Rs 2.25 per share	-	-	(9,677,089)	(9,677,089)
Transfer to capital reserve	-	228,836	(228,836)	-
Profit for the year	-	-	49,613,593	49,613,593
Total recognized income for the year	-	-	49,613,593	49,613,593
<b>Balance at 30 June 2008</b>	<b>43,009,284</b>	<b>2,667,064</b>	<b>63,695,077</b>	<b>109,371,425</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



Chief Executive



# Notes to the Financial Statements

for the year ended 30 June 2008

## 1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Company", was incorporated on 23 October 1997 under the Companies Ordinance, 1984. The registered office of the Company is located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan. The Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. The Company is listed on all the three stock exchanges of Pakistan and its Global Depository Shares (1GDS = 10 Ordinary shares of the Company) are listed on the London Stock Exchange.

Government of Pakistan owns 85.02% (2007: 85.02%) of the Ordinary shares of the Company as of 30 June 2008.

## 2 BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

These financial statements are separate financial statements of the Company in which investments in subsidiaries and associates are accounted for on the basis of direct equity interest rather than on the basis of reported results. Consolidated financial statements are prepared separately.

### 2.2 BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost basis except that obligations under certain employee benefits and provision for decommissioning cost have been measured at present value, investments at fair value through profit or loss and investments available for sale have been measured at fair market value, and investments held to maturity have been recognized at amortized cost.

### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Pak Rupee which is the Company's functional currency. All financial information presented has been rounded off to the nearest thousand of rupees, unless otherwise stated.

### 2.4 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.



# Notes to the Financial Statements

for the year ended 30 June 2008

## 2.4.1 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

## 2.4.2 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in impairment testing for development and production assets of the Company. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated with reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Changes to the estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

## 2.4.3 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amount of provision recognized are based on current legal and constructive requirements, technology and price levels. Provision is based on the best estimates, however, the actual outflows can differ from estimated cash outflows due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of provision is reviewed and adjusted to take account of such changes.

## 2.4.4 Employee benefits

Defined benefits plans are provided for permanent employees of the Company. The plans are structured as separate legal entities managed by trustees except post retirement medical benefits and accumulating compensated absences plan for which deferred liability is recognized in the Company's financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, medical benefit rate, the expected long term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined by independent actuaries annually.

The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market related value at the beginning of the year. Pension cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employee service during the year and the interest on the obligation in respect of employee's service in previous years, net of the expected return on plan assets. Calculations are sensitive to changes in the underlying assumptions.

## 2.4.5 Taxation

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 EMPLOYEE BENEFITS

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of



# Notes to the Financial Statements

for the year ended 30 June 2008

the Company. The accounting policy for pension, post retirement medical benefits and accumulating compensated absences is described below:

## 3.1.1 Pension, post retirement medical benefits and accumulating compensated absences

The Company operates an approved funded pension scheme under an independent trust for its permanent employees, including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited, as a defined benefit plan.

The Company also provides post retirement medical benefits to its permanent employees and their families, including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited, as a defined benefit plan.

The Company also has a policy whereby all its permanent employees including those seconded to its wholly owned subsidiary, Pirkoh Gas Company (Private) Limited are eligible to encash accumulated leave balance at the time of retirement or during the service.

The Company makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried as of 30 June 2008. The calculations of actuaries are based on the projected unit credit method, net of the assets guaranteeing the plan, if any, with the obligation increasing from year to year, in a manner that it is proportional to the length of service of the employees.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets, if any, is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. Fair value of the benefit plans is based on market price information and, contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable, while actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of plan assets and present value of obligation) are recognized over the average expected remaining working lives of the employees.

## 3.2 TAXATION

Taxation for the year comprises current and deferred tax. Taxation is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, if any, in which case the tax amounts are recognized in equity.

### 3.2.1 Current

Provision for current taxation is based on taxable income at applicable tax rates adjusted for payments to the GoP on account of royalty.

### 3.2.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

## 3.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any except freehold land and capital work in progress which are stated at cost less impairment loss, if any. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in the note 3.4.4 to the financial statements.



# Notes to the Financial Statements

for the year ended 30 June 2008

Depreciation is provided on straight line method at rates specified in note 12 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Subsequent costs are included in the assets carrying amount when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repair and maintenance is charged to income during the year. Gains and losses on disposal of property, plant and equipment are included in the profit and loss account currently.

Capital work in progress is stated at cost less accumulated impairment losses, if any, and are transferred to the respective item of property, plant and equipment when available for intended use.

Impairment tests for property, plant and equipment are performed when there is an indication of impairment. At each year end, an assessment is made to determine whether there are any indications of impairment. If any, indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value of the asset less cost to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as to reduce the carrying amount of the property, plant and equipment to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units. Cash generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where conditions giving rise to impairment subsequently reverse, the carrying amount of the property, plant and equipment is increased to its revised recoverable amount but limited to the extent of initial cost of the property, plant and equipment.

## 3.4 OIL AND GAS ASSETS

The Company applies the "successful efforts" method of accounting for Exploration and Evaluation (E&E) costs.

### 3.4.1 Pre license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the profit and loss account as they are incurred.

### 3.4.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions, exploratory/evaluation drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centers as appropriate, pending determination.

Costs directly associated with an exploratory well are capitalized as an intangible asset until the drilling of the well is completed and results have been evaluated. Major costs include employee benefits, material, chemical, fuel, well services



# Notes to the Financial Statements

for the year ended 30 June 2008

and rig costs. All other exploration costs including cost of technical studies, seismic acquisition and data processing, geological and geophysical activities are charged currently against income as exploration and prospecting expenditure.

Tangible assets used in E&E activities other than stores held, include the Company's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's exploration function and are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is then reclassified as development and production assets and if commercial reserves have not been found, the capitalized costs are written off as dry and abandoned wells.

E&E assets are not amortized prior to the conclusion of appraisal activities.

## 3.4.3 Development and production assets - intangible

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 3.4.2 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

Expenditure carried within each field is amortized from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the year to the estimated quantities of commercial reserves at the end of the year plus the production during the year, on a field by field basis. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

## 3.4.4 Decommissioning cost

The activities of the Company normally give rise to obligations for site restoration. Restoration activities may include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration.

The Company makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfill the obligation of site restoration and rehabilitation. The amount recognized is the estimated cost of decommissioning, discounted to its net present value and is reassessed every three years. The latest estimates were made as at 30 June 2006 and the expected outflow of economic resources to settle this obligation is up to next 25 years. Decommissioning cost, as appropriate, relating to producing/shut-in fields and production facilities is capitalized to the cost of development and production assets and property, plant and equipment as the case may be. The recognized amount of decommissioning cost is subsequently amortized/depreciated as part of the capital cost of the development and production assets and property, plant and equipment.

While the provision is based on the best estimate of future costs and the economic lives of the facilities and property, plant and equipment there is uncertainty regarding both the amount and timing of incurring these costs. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment and development and production assets. The unwinding of the discount on the decommissioning provision is recognized as finance cost.

## 3.4.5 Impairment of oil and gas assets

E&E assets are assessed for impairment when facts and circumstances indicate that carrying amount may exceed the recoverable amount of E&E assets. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Company has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is



# Notes to the Financial Statements

for the year ended 30 June 2008

not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of the development and production assets may exceed its recoverable amount. Such circumstances depend on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, the production costs, the contractual duration of the production field and the net selling price of the hydrocarbons produced.

The carrying value is compared against expected recoverable amount of the oil and gas assets, generally by reference to the present value of the future net cash flows expected to be derived from such assets. The cash generating unit applied for impairment test purpose is generally field by field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account, net of any depreciation that would have been charged since the impairment.

## 3.5 INVESTMENTS

All purchases and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Company. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

### 3.5.1 Investments in subsidiaries and associated companies

Investments in subsidiaries where control and associates where significant influence can be established, are stated at cost and the carrying amount is adjusted for impairment, if any, in the recoverable amounts of such investments.

Subsidiaries are those enterprises in which the Company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and/or appoint more than 50% of its directors.

Associates are those entities in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

### 3.5.2 Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Company has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

### 3.5.3 Investments available for sale

All investments classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

### 3.5.4 Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gain or loss recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.



# Notes to the Financial Statements

for the year ended 30 June 2008

## 3.6 STORES, SPARE PARTS AND LOOSE TOOLS

Stores, spare parts and loose tools are valued at the lower of cost and net realizable value less allowance for slow moving and obsolete items. Cost is determined on the weighted average basis and comprises costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

The Company reviews the carrying amount of stores and spare parts on a regular basis and provision is made for obsolescence.

## 3.7 STOCK IN TRADE

Stock in trade is valued at the lower of production cost and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of production and selling expenses.

## 3.8 INTANGIBLES

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment, if any.

## 3.9 REVENUE RECOGNITION

Revenue from sales is recognized when significant risks and rewards of ownership are transferred to the buyer. Revenue from extended well testing is recognized as income on delivery of goods to customers. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

Revenue from services is recognized on rendering of services to customers.

The Company recognizes interest if any, on delayed payments from customers on receipt basis.

Profits and losses of subsidiary and associated companies are carried forward in the financial statements of the subsidiary and associated companies and are not accounted for in the financial statements of the Company, except to the extent of dividend income from the subsidiary and associated companies.

Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Income on investments is recognized on time proportion basis taking into account the effective yield of such securities.

Dividend income on equity investments is recognized when the right to receive the payment is established.

## 3.10 BORROWING COSTS

Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

## 3.11 JOINT VENTURE OPERATIONS

The Company has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participants such that the operation itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that financial and operational policies of such joint venture are those of participants. The



# Notes to the Financial Statements

for the year ended 30 June 2008

financial statements of the Company include its share of assets, liabilities and expenses in such joint venture operations which is pro rata to Company's interest in the joint venture operations.

The Company's share of assets, liabilities and expenses in joint venture operations are accounted for on the basis of latest available audited financial statements of the joint venture operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date.

## 3.12 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

## 3.13 PROVISIONS

Provisions are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

## 3.14 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are derecognized when the Company ceases to be a party to the contractual provisions of the instrument.

Financial assets mainly comprise investments, loans, advances, deposits, trade debts, other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are creditors, accrued and other payables.

All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

## 3.15 OFFSETTING

Financial assets and liabilities and tax assets and liabilities are set off in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

## 3.16 TRADE DEBTS

Trade debts and other receivables are stated at original invoice amount as reduced by appropriate provision for impairment. Bad debts are written off when identified while debts considered doubtful of recovery are fully provided for. Provision for doubtful debts is charged to profit and loss account currently.

## 3.17 TRADE AND OTHER PAYABLES

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

## 3.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost, except for foreign currency deposits which are carried at fair value.



# Notes to the Financial Statements

for the year ended 30 June 2008

## 3.19 DIVIDEND

Dividend is recognized as a liability in the period in which it is declared.

## 3.20 SELF INSURANCE SCHEME

The Company is following a policy to set aside reserve for self insurance of rigs, wells, plants, pipelines, vehicles, workmen compensation, losses of petroleum products in transit and is keeping such reserve invested in specified investments.

## 3.21 IMPAIRMENT

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash generating unit, the recoverable amount is deemed to be the value in use. Impairment losses are recognized as expense in the profit and loss account.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

## 4 SHARE CAPITAL

### Issued, subscribed and paid up capital

2008	2007		2008	2007
Number			(Rupees '000)	
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 4.1)	10,752,321	10,752,321
3,225,696,300	3,225,696,300	Ordinary shares of Rs 10 each issued as fully paid bonus shares	32,256,963	32,256,963
<u>4,300,928,400</u>	<u>4,300,928,400</u>		<u>43,009,284</u>	<u>43,009,284</u>

- 4.1 In consideration for all the properties, rights, assets, obligations and liabilities of OGDC vested in the Company, 1,075,232,100 Ordinary fully paid shares of Rs 10 each were issued to GoP on 23 October 1997. Currently, the GoP holds 85.02% paid up capital of the Company.

### Authorized share capital

This represents 5,000,000,000 (2007: 5,000,000,000) Ordinary shares of Rs 10 each.

## 5 CAPITAL RESERVE

The Company has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation, vehicle repair and losses of petroleum products in transit. Refer note 15.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.



# Notes to the Financial Statements

for the year ended 30 June 2008

	2008 (Rupees '000)	2007
<b>6 DEFERRED TAXATION</b>		
The balance of deferred tax is in respect of following temporary differences:		
Accelerated depreciation on property, plant and equipment	3,644,307	2,586,475
Expenditure of exploration and evaluation, development and production assets	12,263,331	9,934,605
Provision for decommissioning cost	(1,878,957)	-
Provision for doubtful debts	(1,414,219)	(1,269,402)
Provision for slow moving and obsolete stores	(244,014)	(227,762)
	<u>12,370,448</u>	<u>11,023,916</u>

Deferred tax liability has been calculated at the current effective tax rate of 30.97% (2007: 28.91%) after taking into account depletion allowance and set offs, where available, in respect of royalty payments to the GoP.

	Note	2008 (Rupees '000)	2007
<b>7 DEFERRED EMPLOYEE BENEFITS</b>			
Post retirement medical benefits	7.1	841,975	807,382
Accumulating compensated absences	7.2	686,469	615,750
		<u>1,528,444</u>	<u>1,423,132</u>

## 7.1 Post retirement medical benefits

The amount recognized in the balance sheet is as follows:

Present value of defined benefit obligation	1,901,688	608,371
Unrecognized actuarial (loss)/gain	(1,059,713)	199,011
Net liability at end of the year	<u>841,975</u>	<u>807,382</u>

Movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation at beginning of the year	608,371	538,894
Current service cost	65,124	24,173
Interest cost	60,837	53,889
Benefits paid	(71,629)	(21,553)
Actuarial loss	1,238,985	12,968
Present value of defined benefit obligation at end of the year	<u>1,901,688</u>	<u>608,371</u>

Expense recognized in profit and loss account:

Current service cost	65,124	24,173
Interest cost	60,837	53,889
Net actuarial gain recognized	(19,739)	(22,584)
	<u>106,222</u>	<u>55,478</u>
Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited	(6,001)	(3,303)
	<u>100,221</u>	<u>52,175</u>

The expense is recognized in the following line items in profit and loss account:

Operating expenses	46,436	25,522
General and administration expenses	16,731	3,953
Technical services	37,054	22,700
	<u>100,221</u>	<u>52,175</u>

Significant actuarial assumptions used were as follows:

Discount rate per annum	12%	10%
Medical inflation rate per annum	7%	6%
Inflation rate per annum	3%	2%
Mortality rate	61~66 years	61~66 years

# Notes to the Financial Statements

for the year ended 30 June 2008

A one percent change in the medical cost trend rate would have the following effect:

	2008 (Rupees '000)	
	1% increase	1% decrease
Present value of medical obligation	2,208,532	1,652,934
Current service cost and interest cost	308,208	223,693

## 7.2 Accumulating compensated absences

	2008 (Rupees '000)	2007 (Rupees '000)
Present value of defined benefit obligation	615,750	646,788
Charge for the year	70,719	(31,038)
Net liability at end of the year	686,469	615,750

The rates of discount and salary increase were assumed at 12% (2007: 10%) each per annum.

## 8 PROVISION FOR DECOMMISSIONING COST

	2008 (Rupees '000)	2007 (Rupees '000)
Balance at beginning of the year	5,151,807	4,221,756
Provision made during the year	392,210	486,352
	5,544,017	4,708,108
Unwinding of discount on provision for decommissioning cost	522,699	443,699
Balance at end of the year	6,066,716	5,151,807
The above provision for decommissioning cost is analyzed as follows:		
Wells	4,473,288	4,105,439
Production facilities	627,030	602,669
Unwinding of discount on provision for decommissioning cost		
Wells	838,356	383,575
Production facilities	128,042	60,124
	966,398	443,699
	6,066,716	5,151,807
Significant assumptions used were as follows:		
Discount rate per annum	10.2%	10.2%
Inflation rate per annum	7.63%	7.63%



# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		345,588	290,116
Accrued liabilities		5,375,810	3,355,187
Royalty		6,606,991	2,397,564
Excise duty		103,819	102,291
General sales tax		580,774	1,362,049
Payable to joint venture partners		1,369,547	1,028,288
Retention money		278,088	212,766
Trade deposits		98,281	94,581
Workers' profit participation fund	21.2	187,411	-
Unpaid dividend		1,450,691	2,102,291
Unclaimed dividend		102,788	65,790
Employees' pension trust	9.1	-	-
Advances from customers		174,341	35,756
Other payables		413,921	75,986
		<u>17,088,050</u>	<u>11,122,665</u>
<b>9.1 Employees' pension trust</b>			
The amount recognized in the balance sheet is as follows:			
Present value of defined benefit obligation		11,262,067	9,320,649
Fair value of plan assets		(10,024,651)	(9,179,845)
Deficit of the fund		1,237,416	140,804
Unrecognized actuarial gain		(1,237,416)	(140,804)
Net liability at end of the year		-	-
The movement in the present value of defined benefit obligation is as follows:			
Present value of defined benefit obligation at beginning of the year		9,320,649	7,622,259
Current service cost		505,591	377,563
Interest cost		932,065	762,226
Benefits paid		(348,184)	(231,530)
Actuarial loss		851,946	790,131
Present value of defined benefit obligation at end of the year		<u>11,262,067</u>	<u>9,320,649</u>
The movement in the fair value of plan assets is as follows:			
Fair value of plan assets at beginning of the year		9,179,845	8,340,395
Expected return on plan assets		917,985	834,040
Contributions		519,671	305,749
Benefits paid		(348,184)	(231,530)
Actuarial loss		(244,666)	(68,809)
Fair value of plan assets at end of the year		<u>10,024,651</u>	<u>9,179,845</u>
Expense recognized in profit and loss account:			
Current service cost		505,591	377,563
Interest cost		932,065	762,226
Expected return on plan assets		(917,985)	(834,040)
Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited		(19,849)	(12,546)
		<u>499,822</u>	<u>293,203</u>
Plan assets comprise:			
Bonds		9,088,876	8,567,514
Equity		906,236	607,943
Cash and bank balances		29,539	4,388
		<u>10,024,651</u>	<u>9,179,845</u>

# Notes to the Financial Statements

for the year ended 30 June 2008

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based exclusively on historical returns, without adjustments.

	2008 (Rupees '000)	2007
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	209,765	121,603
General and administration expenses	101,119	62,146
Technical services	188,938	109,454
	<u>499,822</u>	<u>293,203</u>
Actual return on plan assets	<u>673,319</u>	<u>765,000</u>

Comparison of present value of defined benefit obligation, fair value of plan assets and surplus or deficit of pension fund for five years is as follows:

	2008	2007	2006	2005	2004
	(Rupees '000)				
Present value of defined benefit obligation	11,262,067	9,320,649	7,622,259	7,543,651	6,325,301
Fair value of plan assets	(10,024,651)	(9,179,845)	(8,340,395)	(7,543,484)	(7,423,308)
Deficit/(surplus)	<u>1,237,416</u>	<u>140,804</u>	<u>(718,136)</u>	<u>167</u>	<u>(1,098,007)</u>
Experience adjustments on obligation	(851,946)	(790,131)	704,756	(595,374)	(1,193,227)
Experience adjustments on plan assets	(244,666)	(68,809)	(35,493)	(455,275)	2,973,112

Significant actuarial assumptions used were as follows:

	2008	2007
Discount rate per annum	12%	10%
Rate of increase in future compensation levels per annum	12%	10%
Expected rate of return on plan assets per annum	12%	10%
Indexation rate per annum	5%	3%

The Company expects to make a contribution of Rs 740.557 million to the employees' pension trust during the next financial year.

## 10 PROVISION FOR TAXATION

	2008 (Rupees '000)	2007
(Advance tax)/tax payable at beginning of the year	(5,950,713)	3,716,958
Income tax paid during the year	(22,306,667)	(24,083,508)
Provision for taxation - current	20,850,485	14,415,837
Provision for taxation - prior years	11,550,199	-
Tax payable/(advance tax) at end of the year	<u>4,143,304</u>	<u>(5,950,713)</u>



# Notes to the Financial Statements

for the year ended 30 June 2008

## 11 CONTINGENCIES AND COMMITMENTS

- 11.1** Claims against the Company not acknowledged as debts amounted to Rs 229.420 million at year end (2007 : Rs 232.491 million).
- 11.2** At present Qadirpur Gas Price is being notified by Oil and Gas Regulatory Authority (OGRA) on the basis of a provisional discount table for High Sulphur Fuel Oil (HSFO) price upto the maximum limit of USD 200 per metric ton notified by Ministry of Petroleum and Natural Resources. In terms of article 4.1(b) of Qadirpur Gas Pricing Agreement, the Company has taken up the matter with GoP for notification of step discounts to be used in the calculation of gas price at HSFO prices exceeding USD 200 per metric ton. To date no agreement has been reached on said step discounts between the Company and GoP. After settlement of discount issue which can not be quantified at this stage, gas prices will be adjusted with effect from July 2005. Since the gas prices during the year 2005-06 were notified on the basis of existing table, therefore, there may be some adjustment pertaining to that year whenever the discount levels are finalized.
- 11.3** Commitments outstanding at year end amounted to Rs 18,909.109 million (2007: Rs 12,256.639 million). These include amounts aggregating to Rs 967.227 million (2007: Rs 2,672.684 million) representing the Company's share in the minimum work commitments related to operated/non-operated concessions.
- 11.4** Letters of credit issued by various banks on behalf of the Company in ordinary course of the business, outstanding at the year end amounted to Rs 6,504.968 million (2007: Rs 4,318.176 million).
- 11.5** Certain banks have issued guarantees on behalf of the Company in ordinary course of business aggregating Rs 444.844 million (2007: Rs 104.844 million), refer note 23.1 to the financial statements.
- 11.6** For contingencies relating to tax matters, refer note 30.2 to the financial statements.

## for the year ended 30 June 2008

## (Rupees '000)

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# Notes to the Financial Statements

for the year ended 30 June 2008

**12.1** Cost and accumulated depreciation as at 30 June 2008 include Rs 15,223.150 million (2007: Rs 12,743.355 million) and Rs 8,274.394 million (2007: Rs 7,190.478 million) respectively being the Company's share in property, plant and equipment relating to joint ventures operated by others.

	Note	2008 (Rupees '000)	2007
<b>12.2 The depreciation charge has been allocated to:</b>			
Operating expenses	25	2,802,692	2,879,766
General and administration expenses	28	117,754	98,676
Technical services		433,618	256,067
		<u>3,354,064</u>	<u>3,234,509</u>

## 12.3 Capital work in progress

Production facilities and other civil works in progress:

Wholly owned	1,017,729	678,782
Joint ventures	1,274,218	1,073,058
	<u>2,291,947</u>	<u>1,751,840</u>

Construction cost of field offices and various bases/offices owned by the Company

71,933	53,562
<u>2,363,880</u>	<u>1,805,402</u>

## 12.4 Details of property, plant and equipment sold:

	Cost	Book value	Sale proceeds
		(Rupees)	
Vehicles sold to following retiring employees as per Company's policy:			
Mr. Najam Kamal Hyder	939,000	8,710	312,028
Mr. Khalid Mahmood	969,000	706,447	706,447
Mr. Abdul Waheed	969,000	670,777	670,777
Mr. Pervaiz Malik	969,000	712,030	712,030
Mr. Khizer Mahmood	943,000	493,937	493,937
Mr. Mehboob A. Malik	943,000	394,629	394,629
Mr. Naeem Tahir	939,000	250,522	250,522
Mr. Abdul Saboor Khan	939,000	26,699	26,699
Mr. Sartaj Ahmed	548,730	1,000	1,000
Mr. Yaqoob Sheikh	548,730	1,000	1,000
Mr. Syed Musa	548,780	5,202	5,202
Mr. Jamal ud Din	548,780	1,000	1,000
Mr. Aziz ur Rehman	555,000	312,151	312,151
Mr. Abdul Hussain	555,000	244,063	244,063
Mr. Muhammad Saeed	969,000	737,741	737,741
Mr. M. Abdul Waheed	548,780	23,512	23,512
Mr. Safdar Abbas	548,780	123,763	123,763
Mr. Yousuf Marwat	548,730	1,000	1,000
Mr. Asghar A. Khan	548,730	27,712	27,712
Mr. Muhammad Bashir	548,780	16,908	16,908
Mr. Hamid Rasheed	548,780	23,812	23,812
	<u>15,176,600</u>	<u>4,782,615</u>	<u>5,085,933</u>

Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.

2008	109,540,797	610,002	41,702,855
	<u>124,717,397</u>	<u>5,392,617</u>	<u>46,788,788</u>
2007	118,629,860	2,501,822	35,129,745

# Notes to the Financial Statements

for the year ended 30 June 2008

## 13 DEVELOPMENT AND PRODUCTION ASSETS - Intangible

Description	Producing fields		Shut-in fields		Wells in progress (Note 13.1)	Sub-total	Decom-missioning cost	(Rupees '000)
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				Total
Cost								
Balance as at 01 July 2006	14,363,791	17,407,003	913,183	3,096,818	1,224,183	37,004,978	3,795,693	40,800,671
Additions	4,544,434	2,834,346	766,302	1,403,482	5,879,043	15,427,607	309,746	15,737,353
Transfers	-	-	-	-	(5,003,553)	(5,003,553)	-	(5,003,553)
Balance as at 30 June 2007	18,908,225	20,241,349	1,679,485	4,500,300	2,099,673	47,429,032	4,105,439	51,534,471
Balance as at 01 July 2007	18,908,225	20,241,349	1,679,485	4,500,300	2,099,673	47,429,032	4,105,439	51,534,471
Additions	5,262,159	2,579,280	982,961	798,874	9,505,098	19,128,372	367,849	19,496,221
Transfers	-	-	-	-	(6,544,938)	(6,544,938)	-	(6,544,938)
Balance as at 30 June 2008	24,170,384	22,820,629	2,662,446	5,299,174	5,059,833	60,012,466	4,473,288	64,485,754
Amortization								
Balance as at 01 July 2006	8,902,283	7,268,894	368,081	141,085	-	16,680,343	2,466,766	19,147,109
Charge for the year	1,681,872	1,745,631	4,360	148	-	3,432,011	205,358	3,637,369
Balance as at 30 June 2007	10,584,155	9,014,525	372,441	141,233	-	20,112,354	2,672,124	22,784,478
Balance as at 01 July 2007	10,584,155	9,014,525	372,441	141,233	-	20,112,354	2,672,124	22,784,478
Charge for the year	2,459,160	2,151,644	298	59	-	4,611,161	282,074	4,893,235
Balance as at 30 June 2008	13,043,315	11,166,169	372,739	141,292	-	24,723,515	2,954,198	27,677,713
Carrying amount - 2007	8,324,070	11,226,824	1,307,044	4,359,067	2,099,673	27,316,678	1,433,315	28,749,993
Carrying amount - 2008	11,127,069	11,654,460	2,289,707	5,157,882	5,059,833	35,288,951	1,519,090	36,808,041

2008      2007  
(Rupees '000)

### 13.1 Wells in progress

Wholly owned	2,546,595	673,135
Joint ventures	2,513,238	1,426,538
	<b>5,059,833</b>	<b>2,099,673</b>



# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>14 EXPLORATION AND EVALUATION ASSETS</b>			
Balance at beginning of the year		1,875,370	2,551,149
Additions		8,135,406	8,069,762
		<u>10,010,776</u>	<u>10,620,911</u>
Cost of dry and abandoned wells	27	(4,109,145)	(4,200,530)
Cost of wells transferred to development and production assets		(3,078,336)	(4,545,011)
		<u>(7,187,481)</u>	<u>(8,745,541)</u>
		<u>2,823,295</u>	<u>1,875,370</u>
Stores held for exploration and evaluation activities	14.1	4,849,149	4,490,336
Balance at end of the year		<u>7,672,444</u>	<u>6,365,706</u>

## 14.1 Stores held for exploration and evaluation activities

Balance at beginning of the year	4,490,336	1,796,993
Additions	1,958,077	3,856,654
Issuances	(1,599,264)	(1,163,311)
Balance at end of the year	<u>4,849,149</u>	<u>4,490,336</u>

**14.2** The following disclosures detail the liabilities, current assets and expenditure incurred on exploration for and evaluation of mineral resources:

	Note	2008 (Rupees '000)	2007
Liabilities related to exploration and evaluation activities		<u>489,757</u>	<u>526,695</u>
Current assets related to exploration and evaluation activities		<u>243,696</u>	<u>401,308</u>
Exploration and prospecting expenditure	27	<u>6,612,836</u>	<u>7,406,280</u>

## 15 LONG TERM INVESTMENTS

Investments in related parties	15.1	491,500	491,500
Investments held to maturity	15.2	2,683,554	2,454,438
		<u>3,175,054</u>	<u>2,945,938</u>

### 15.1 Investments in related parties

#### Unquoted

##### Wholly owned subsidiary Company - at cost

Pirkoh Gas Company (Private) Limited	418,000	418,000
Percentage holding 100% (2007: 100%)		
1,254,000 (2007: 1,254,000) fully paid Ordinary shares of Rs 1,000 each (including 836,000 bonus shares). Breakup value based on audited financial statements was Rs 1,359 million (2007: Rs 6,655 million).		

The Board of Directors of the Company in consultation with the Privatization Commission of Pakistan has, in principle, approved merger of the subsidiary with the Company.

#### Quoted

##### Associated Company - at cost

Mari Gas Company Limited	73,500	73,500
Percentage holding 20% (2007: 20%)		
7,350,000 (2007: 7,350,000) fully paid Ordinary shares of Rs 10 each		
Market value Rs 1,981 million (2007: Rs 1,286 million)		
	<u>491,500</u>	<u>491,500</u>

# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>15.2 Investments held to maturity</b>			
Defence Saving Certificates (DSCs)	15.2.1	174,918	389,097
Term Deposit Receipts (TDRs)	15.2.2	2,508,636	2,065,341
		<u>2,683,554</u>	<u>2,454,438</u>
<b>15.2.1</b>	Face value of investments in DSCs is Rs 34.847 million (2007: Rs 84.908 million). These carry effective interest rates ranging between 16% to 18% (2007: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2009 to 2010.		
<b>15.2.2</b>	Face value of investments in TDRs is Rs 2,465 million (2007: Rs 2,015 million). These have maturity period upto six months and carry effective interest rates of 10.25% to 10.70% (2007: 10.80% to 11.60%) per annum.		
<b>15.2.3</b>	Investments amounting to Rs 2,678.315 million (2007: Rs 2,255.354 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments to the extent of capital reserve.		
<b>15.2.4</b>	The above investments are identified against capital reserve as explained in note 5 to the financial statements.		

	Note	2008 (Rupees '000)	2007
<b>16 LONG TERM LOANS AND RECEIVABLES</b>			
Long term loans - secured	16.1	1,324,059	1,117,755
Long term receivables - unsecured	16.2	-	-
		<u>1,324,059</u>	<u>1,117,755</u>
<b>16.1 Long term loans - secured</b>			
Considered good:			
Executives		309,647	71,034
Other employees		1,239,745	1,237,189
		<u>1,549,392</u>	<u>1,308,223</u>
Current portion shown under loans and advances	19	(225,333)	(190,468)
		<u>1,324,059</u>	<u>1,117,755</u>

## 16.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at 01 July 2007	Disbursements during the year	Adjustments during the year	Repayments during the year	Balance as at 30 June 2008
					(Rupees '000)
Due from:					
Executives	71,034	109,551	180,726	(51,664)	309,647
Other employees	1,237,189	344,293	(180,726)	(161,011)	1,239,745
	<u>1,308,223</u>	<u>453,844</u>	<u>-</u>	<u>(212,675)</u>	<u>1,549,392</u>

**16.1.2** The loans are granted to the employees of the Company in accordance with the Company's service rules. House building and conveyance loans are for maximum period of 15 and 5 years respectively. These loans are secured against the underlying assets. Included in these are loans of Rs 1,246.567 million (2007: Rs 1,043.686 million) which carry no interest. The balance amount carries an effective interest rate of 10.21% (2007: 10.65%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 309.647 million (2007: Rs 85.970 million).



# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>16.2 Long term receivables - unsecured</b>			
Considered good		-	471,827
Reversal of impairment		-	61,573
		-	533,400
Current portion shown under other receivables	21	-	(533,400)
		-	-
<b>17 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores, spare parts and loose tools		13,921,726	11,872,952
Stores and spare parts in transit		3,140,218	2,093,208
		17,061,944	13,966,160
Provision for slow moving and obsolete stores		(787,865)	(787,865)
		16,274,079	13,178,295
<b>18 TRADE DEBTS</b>			
Unsecured, considered good		40,628,376	27,873,515
Unsecured, considered doubtful		4,325,082	4,391,070
		44,953,458	32,264,585
Provision for doubtful debts		(4,325,082)	(4,391,070)
Trade debts written off		(1,445)	-
		40,626,931	27,873,515

**18.1** Trade debts include an amount of Rs 4,436 million (2007: Rs 4,354 million) withheld by Uch Power (Private) Limited (UPL) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to the proposal.

**18.2** Trade debts also include an amount of Rs 3,649 million (2007: Rs 5,379 million) which has been withheld by the refineries under the previous directive of Ministry of Petroleum and Natural Resources and represents revenue on Crude Oil in excess of USD 50 per barrel. On 04 December 2007, Ministry of Petroleum and Natural Resources issued another directive whereby discount on Crude Oil and Condensate in excess of USD 50 per barrel was settled. According to the said directive, in case the net prices exceed the present ceiling limits mentioned in the respective agreements, the excess will be equally shared between the Government and Exploration and Production (E&P) Companies both for Crude Oil and Condensate. The effect of this has been incorporated in these financial statements. Further, the matter has been taken up with oil refineries for release of withheld amounts.

**18.3** Also included in trade debts is an amount of Rs 3,954 million (2007: Rs 3,288 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.

## for the year ended 30 June 2008

## 19 LOANS AND ADVANCES

Security deposits	9,345	8,888
Short term prepayments	669,444	284,040
	<u>678,789</u>	<u>292,928</u>

Development surcharge		80,357	76,307
Receivable from subsidiary	21.1	35,820	61,338
Dividend receivable from subsidiary		616,000	-
Current portion of long term receivables - unsecured	16.2	-	533,400
Claims receivable		16,420	19,209
Workers' profit participation fund	21.2	-	286,383
Others		353,447	86,752
		<u>1,102,044</u>	<u>1,063,389</u>

	Note	2008 (Rupees '000)	2007
<b>21.2 Workers' profit participation fund</b>			
Receivable at beginning of the year		286,383	30,983
Paid to the fund during the year		4,200,000	3,500,000
		<u>4,486,383</u>	<u>3,530,983</u>
Received during the year		(286,383)	(30,983)
Charge for the year		(4,387,411)	(3,213,617)
(Payable)/receivable at end of the year	9	<u>(187,411)</u>	<u>286,383</u>

Investments:			
At fair value through profit or loss - NIT units		237,684	279,909
Available for sale	22.1	<u>9,969,832</u>	<u>13,274,050</u>
		<b>10,207,516</b>	<b>13,553,959</b>

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# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>23 CASH AND BANK BALANCES</b>			
Cash at bank:			
Deposit accounts	23.1	5,978,235	4,541,284
Current accounts		720,015	152,087
		<b>6,698,250</b>	4,693,371
Cash in hand		16,798	25,236
Cash in transit		-	1,685
		<b>6,715,048</b>	4,720,292

**23.1** These deposit accounts carry interest rate of 1.30% to 9.50% (2007: 1.75% to 9.50%) per annum and include foreign currency deposits amounting to USD 26.938 million (2007: USD 14.545 million). Deposits amounting to Rs 444.844 million (2007: Rs 104.844 million) with banks were under lien to secure bank guarantees issued on behalf of the Company.

	Note	2008 (Rupees '000)	2007
<b>24 SALES - net</b>			
<b>Gross sales</b>			
Crude oil		70,629,371	50,502,930
Gas		58,959,576	57,163,255
Gasoline		4,740	-
Kerosene oil		335,063	528,684
High speed diesel oil		246,587	439,509
Solvent oil		21,866	44,810
Naphtha		2,696,374	3,119,878
Liquefied petroleum gas		5,288,697	4,569,446
Sulphur		820,131	126,821
Other operating revenue	24.1	59,813	63,581
		<b>139,062,218</b>	116,558,914
<b>Government levies</b>			
Excise duty		(1,483,103)	(1,417,470)
Development surcharge		(60,626)	(51,138)
General sales tax		(12,072,815)	(14,829,115)
		<b>(13,616,544)</b>	(16,297,723)
		<b>125,445,674</b>	100,261,191

## 24.1 Other operating revenue

Gas processing	26,553	29,925
Mud engineering services	33,260	33,656
	<b>59,813</b>	63,581

# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>25 OPERATING EXPENSES</b>			
Salaries, wages and benefits	25.1	3,221,630	2,407,727
Traveling and transportation		339,851	300,037
Repairs and maintenance		894,316	907,647
Stores and supplies consumed		803,197	770,746
Rent, fee and taxes		396,186	311,154
Insurance		239,902	238,642
Communication		31,009	28,750
Utilities		42,030	24,296
Land and crops compensation		186,474	170,908
Contract services		681,386	771,244
Joint venture expenses		1,757,827	1,844,426
Desalting, decanting and naphtha storage charges		185,133	189,539
Gas processing charges		172,855	160,601
Charges related to minimum supply of gas - liquidated damages		85,866	1,054,049
Adjustment of discount on trade debts		252,953	1,478,302
Welfare of locals at fields		258,664	140,150
Workover charges		743,675	474,919
Depreciation	12.2	2,802,692	2,879,766
Amortization of development and production assets	13	4,893,235	3,637,369
Transfer from general and administration expenses	28	948,624	733,654
Miscellaneous		2,854	1,642
		<b>18,940,359</b>	<b>18,525,568</b>
Stock of crude oil and other products:			
Balance at beginning of the year		93,788	65,608
Balance at end of the year		(151,782)	(93,788)
		<b>18,882,365</b>	<b>18,497,388</b>

**25.1** These include amount in respect of employee benefits of Rs 256.201 million (2007: Rs 147.125 million).



# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>26 OTHER INCOME</b>			
<b>Income from financial assets</b>			
Interest income on:			
Investments and bank deposits		2,113,078	3,064,607
Long term receivables		-	61,573
Delayed payments from customers		70,851	24,263
		<b>2,183,929</b>	<b>3,150,443</b>
Dividend income from:			
Wholly owned subsidiary		5,016,000	250,800
Associated company		23,931	23,520
NIT units		28,150	26,333
		<b>5,068,081</b>	<b>300,653</b>
Unrealized (loss)/gain on investments at fair value through profit or loss		(42,225)	60,386
Exchange gain/(loss)		733,808	(65,019)
		<b>7,943,593</b>	<b>3,446,463</b>
<b>Income from non financial assets</b>			
Gain on disposal of property, plant and equipment		114,615	32,628
Gain on disposal of inventory		11,753	52,647
Benevolent fund		(41,108)	-
Others		279,831	83,493
		<b>365,091</b>	<b>168,768</b>
		<b>8,308,684</b>	<b>3,615,231</b>
<b>27 EXPLORATION AND PROSPECTING EXPENDITURE</b>			
Cost of dry and abandoned wells	14	4,109,145	4,200,530
Prospecting expenditure		2,503,691	3,205,750
		<b>6,612,836</b>	<b>7,406,280</b>

# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>28 GENERAL AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits	28.1	1,473,918	1,129,986
Traveling and transportation		176,871	155,050
Repairs and maintenance		62,006	35,054
Stores and supplies consumed		69,200	119,229
Rent, fee and taxes		41,038	53,523
Communication		47,425	41,928
Utilities		38,564	41,201
Training and scholarships		11,396	20,911
Legal services		7,961	18,641
Contract services		74,046	74,836
Auditors' remuneration	28.2	9,530	9,335
Advertising		33,248	26,220
Joint venture expenses		444,859	394,117
Insurance		726	748
Donations	28.3	56,900	347,011
Aircraft expenses		4,382	6,352
Unallocated expenses of rigs		142,844	75,604
Depreciation	12.2	117,754	98,676
Trade debts written off		1,445	-
Fixed assets reconciliation adjustment		58,823	-
Miscellaneous		5,021	8,319
		<b>2,877,957</b>	<b>2,656,741</b>
Allocation of expenses to:			
Operations	25	(948,624)	(733,654)
Technical services		(571,788)	(550,528)
Wholly owned subsidiary		(113,515)	(87,083)
		<b>(1,633,927)</b>	<b>(1,371,265)</b>
		<b>1,244,030</b>	<b>1,285,476</b>

**28.1** These include amount in respect of employee benefits of Rs 117.850 million (2007: Rs 66.099 million).



# Notes to the Financial Statements

for the year ended 30 June 2008

## 28.2 Auditors' remuneration

### M/s KPMG Taseer Hadi & Co., Chartered Accountants

Annual audit fee	1,100
Half yearly review	300
Out of pocket expenses	175
Audit of consolidated financial statements	250
Concession audit fee	2,530
Quarterly review of consolidated financial statements	-
Verification of CDC record	50
Local retail offering of shares	-
Consultancy services	240
	<b>4,645</b>

2008  
(Rupees '000)

2007

1,100
300
175
230
1,700
1,125
50
325
-
<b>5,005</b>

### M/s M. Yousuf Adil Saleem & Co., Chartered Accountants

Annual audit fee	1,100
Half yearly review	300
Out of pocket expenses	175
Audit of consolidated financial statements	250
Verification of CDC record	50
Concession audit fee	2,530
Certification of fee payable to OGRA	180
Dividend certification	300
Local retail offering of shares	-
	<b>4,885</b>
	<b>9,530</b>

1,100
300
175
230
-
1,770
180
250
325
<b>4,330</b>
<b>9,335</b>

28.3 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

## 29 FINANCE COST

Unwinding of discount on provision for decommissioning cost	522,699
Bank charges	9,100
	<b>531,799</b>

2008  
(Rupees '000)

2007

443,699
5,862
<b>449,561</b>

# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>30 TAXATION</b>			
Provision for taxation:			
Current		20,850,485	14,415,837
Prior years'		11,550,199	-
Deferred		1,346,532	1,012,925
	30.1	<u>33,747,216</u>	<u>15,428,762</u>
<b>30.1 Reconciliation of tax charge for the year</b>			
Accounting profit		<u>83,360,809</u>	<u>61,058,726</u>
Tax rate		<u>52.39%</u>	<u>52.48%</u>
Tax on accounting profit at applicable rate		43,672,561	32,045,451
Tax effect of amounts that are inadmissible for tax purposes		15,088,969	9,180,984
Tax effect of amounts that are admissible for tax purposes		(13,189,871)	(9,010,560)
Tax effect of royalty allowed for tax purposes		(17,262,493)	(10,877,445)
Tax effect of depletion allowance for tax purposes		(9,969,959)	(7,999,596)
Tax effect of depletion allowance/decommissioning cost for prior years		11,550,199	-
Dividend chargeable to tax at reduced rate		1,767,790	14,197
Income chargeable to tax at corporate rates		743,488	1,062,806
Tax effect of timing differences		1,346,532	1,012,925
		<u>33,747,216</u>	<u>15,428,762</u>

- 30.2** Various appeals in respect of assessment years 1992-93 to 2002-03, tax years 2003 to 2007 are pending at different appellate forums in the light of the order of the Commissioner of Income Tax (Appeals) and decision of the adjudicator appointed by both the Company as well as the Federal Board of Revenue (FBR) mainly on the issues of decommissioning cost and depletion allowance.



# Notes to the Financial Statements

for the year ended 30 June 2008

## 31 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 31.1 Financial assets and liabilities

(Rupees '000)												
Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2008	
	Maturity up to one year	Maturity after one year upto two years	Maturity after two years upto three years	Maturity after three years upto four years	Maturity after four years upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
<b>Financial assets</b>												
Long term investments	10.25% -18.00 %	2,678,315	5,239	-	-	-	-	2,683,554	-	-	-	2,683,554
Long term loans and receivables	10.21%	45,247	40,860	34,774	31,263	27,852	122,829	302,825	180,087	1,066,480	1,246,567	1,549,392
Trade debts		-	-	-	-	-	-	-	40,626,931	-	40,626,931	40,626,931
Loans and advances		-	-	-	-	-	-	-	940,001	-	940,001	940,001
Security deposits		-	-	-	-	-	-	-	9,345	-	9,345	9,345
Other receivables		-	-	-	-	-	-	-	1,021,687	-	1,021,687	1,021,687
Interest accrued		-	-	-	-	-	-	-	158,863	-	158,863	158,863
Other financial assets	5.00 %-10.70 %	9,969,832	-	-	-	-	-	9,969,832	237,684	-	237,684	10,207,516
Cash and bank balances	1.30 %-9.50 %	5,978,235	-	-	-	-	-	5,978,235	736,813	-	736,813	6,715,048
		18,671,629	46,099	34,774	31,263	27,852	122,829	18,934,446	43,911,411	1,066,480	44,977,891	63,912,337
<b>Financial liabilities</b>												
Trade and other payables		-	-	-	-	-	-	-	9,622,125	-	9,622,125	9,622,125
		-	-	-	-	-	-	-	9,622,125	-	9,622,125	9,622,125
<b>On balance sheet gap</b>		18,671,629	46,099	34,774	31,263	27,852	122,829	18,934,446	34,289,286	1,066,480	35,355,766	54,290,212
<b>Unrecognized</b>												
Commitments (other than LCs)		-	-	-	-	-	-	-	18,909,109	-	18,909,109	18,909,109
Claims not acknowledged as debts		-	-	-	-	-	-	-	229,420	-	229,420	229,420
Letters of credit		-	-	-	-	-	-	-	6,504,968	-	6,504,968	6,504,968
Guarantees		-	-	-	-	-	-	-	444,844	-	444,844	444,844
		-	-	-	-	-	-	-	26,088,341	-	26,088,341	26,088,341
<b>Off balance sheet gap</b>		18,671,629	46,099	34,774	31,263	27,852	122,829	18,934,446	8,200,945	1,066,480	9,267,425	28,201,871

# Notes to the Financial Statements

for the year ended 30 June 2008

## 31.2 Financial assets and liabilities

(Rupees '000)											
Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2007
	Maturity up to one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
<b>Financial assets</b>											
Long term investments	10.8%-18%	2,255,354	199,084	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	684,861	892,225	1,841,623
Trade debts		-	-	-	-	-	-	-	27,873,515	-	27,873,515
Loans and advances		-	-	-	-	-	-	-	664,219	-	664,219
Security deposits		-	-	-	-	-	-	-	8,888	-	8,888
Other receivables		-	-	-	-	-	-	-	453,682	-	453,682
Interest accrued		-	-	-	-	-	-	-	253,222	-	253,222
Other financial assets	5.2%-11.6%	13,274,050	-	-	-	-	13,274,050	279,909	-	279,909	13,553,959
Cash and bank balances	1.75%-9.5%	4,541,284	-	-	-	-	4,541,284	179,008	-	179,008	4,720,292
		<u>20,109,695</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>20,534,309</u>	<u>30,397,304</u>	<u>892,225</u>	<u>51,823,838</u>
<b>Financial liabilities</b>											
Trade and other payables		-	-	-	-	-	-	-	7,225,005	-	7,225,005
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,225,005</u>	<u>-</u>	<u>7,225,005</u>
<b>On balance sheet gap</b>		<u>20,109,695</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>20,534,309</u>	<u>23,172,299</u>	<u>892,225</u>	<u>44,598,833</u>
<b>Unrecognized</b>											
Commitments (other than LCs)		-	-	-	-	-	-	-	12,256,639	-	12,256,639
Claims not acknowledged as debts		-	-	-	-	-	-	-	232,491	-	232,491
Letters of credit		-	-	-	-	-	-	-	4,318,176	-	4,318,176
Guarantees		-	-	-	-	-	-	-	104,844	-	104,844
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,912,150</u>	<u>-</u>	<u>16,912,150</u>
<b>Off balance sheet gap</b>		<u>20,109,695</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>20,534,309</u>	<u>6,260,149</u>	<u>892,225</u>	<u>27,686,683</u>



# Notes to the Financial Statements

for the year ended 30 June 2008

## 31.3 Risk management

### a Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 63,912.337 million (2007: Rs 51,823.838 million), financial assets which are subject to credit risk amount to Rs 62,158.573 million (2007: Rs 50,101.282 million). To manage exposure to credit risk, the Company applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Company does not expect these companies to fail to meet their obligations.

### b Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. At the year end financial assets and liabilities include Rs 6,823.928 million (2007: Rs 4,838.674 million) and Rs 212.014 million (2007: Rs 147.260 million) respectively which are exposed to currency risk.

### c Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Company adopts a policy of ensuring minimize its interest rate risk by investing in fixed rate investments like DSCs and TDRs.

### d Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Company follows an effective cash management and planning policy to ensure availability of funds and to take measures for new requirements.

### e Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or/and issue new shares.

## 31.4 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values except for held to maturity investments which are stated at amortized cost.

## 32 EARNINGS PER SHARE - BASIC AND DILUTED

	2008	2007
Profit for the year (Rupees '000)	49,613,593	45,629,964
Average number of shares outstanding during the year ('000)	4,300,928	4,300,928
Earnings per share - basic (Rupees)	11.54	10.61

There is no dilutive effect on the earnings per share of the Company.

# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>33 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	6,715,048	4,720,292
Short term highly liquid investments	22	9,969,832	13,274,050
		<u>16,684,880</u>	<u>17,994,342</u>

		2008 Number	2007
<b>34 NUMBER OF EMPLOYEES</b>			
Total number of employees at end of the year was as follows:			
Regular		9,930	10,335
Contractual		408	370
		<u>10,338</u>	<u>10,705</u>

## 35 RELATED PARTIES TRANSACTIONS

Related parties comprise wholly owned subsidiary, associated company, profit oriented state controlled entities, major shareholders, directors, companies with common directorship, key management personnel and employees pension trust. Transactions of the Company with related parties and balance outstanding at the year end are as follows:

	2008 (Rupees '000)	2007
<b>Subsidiary</b>		
Dividend income	5,016,000	250,800
Gas processing charges	172,855	160,601
Technical support provided	113,515	87,083
Reimbursement of payroll expense	95,378	88,122
Stores and supplies transferred	75,537	103,849
Rent of dehydration plant charged by the subsidiary company	-	7,293
Receivable at end of the year	35,820	61,338

### Associated company

Dividend income received	23,931	23,520
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### Related parties by virtue of common directorship and GoP holdings

#### National Refinery Limited

Sale of crude oil	12,114,785	9,999,060
Sale of naphtha	2,692,063	3,119,878
Naphtha handling and storage charges	79,094	124,458
Receivable as at 30 June	4,900,153	4,712,900

#### Pakistan Refinery Limited

Sale of crude oil	6,601,372	4,405,576
Receivable as at 30 June	2,883,206	2,098,667

#### Government Holdings (Private) Limited

Payable as at 30 June	33,852	31,714
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# Notes to the Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>RELATED PARTIES TRANSACTIONS - continued</b>			
<b>Pak Arab Refinery Company Limited</b>			
Sale of crude oil		4,550,009	3,457,091
Receivable as at 30 June		1,291,614	1,203,717
<b>Sui Northern Gas Pipelines Limited</b>			
Sale of natural gas		32,695,743	31,973,521
Purchase of high BTU value gas		2,339,544	2,142,015
Receivable as at 30 June		4,703,561	4,921,392
<b>Sui Southern Gas Company Limited</b>			
Sale of natural gas		18,600,281	17,684,633
Pipeline rental charges		12,235	40,212
Receivable as at 30 June		7,364,325	6,105,115
<b>Pakistan State Oil Company Limited</b>			
Sale of refined petroleum products		382,398	643,676
Sale of liquefied petroleum gas		15,372	22,604
Purchase of petroleum, oil and lubricants		1,991,883	1,620,841
Receivable as at 30 June		8,651	87,117
<b>National Insurance Company Limited</b>			
Insurance premium paid		569,732	559,838
<b>National Logistic Corporation</b>			
Crude transportation charges paid		1,142,134	833,686
<b>Heavy Mechanical Complex</b>			
Purchase of stores and spares		13,577	72,561
<b>Water and Power Development Authority</b>			
Sale of natural gas		141,453	101,273
Receipts against long term loan		533,400	533,400
Receivable as at 30 June		31,322	31,652
<b>Enar Petrotech Services Limited</b>			
Consultancy services		39,332	31,098
Sale of crude oil		1,634,809	1,371,050
Receivable as at 30 June		173,592	128,564
<b>Government of Pakistan</b>			
Dividend paid		35,552,215	34,661,776
<b>Other related parties</b>			
Contribution to staff benefit funds		519,671	305,749
Remuneration including benefits and perquisites of chief executive	35.1	11,429	10,412
Remuneration including benefits and perquisites of executives	35.1	1,463,958	655,944

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so. Sale of Crude Oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of Natural Gas to related parties is at price notified by the GoP whereas sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority (OGRA).

# Notes to the Financial Statements

for the year ended 30 June 2008

## 35.1 REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in these financial statements for the remuneration of the chief executive and executives was as follows:

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	7,080	556,541	6,915	231,456
Housing and utilities	1,200	394,551	1,437	149,355
Other allowances and benefits	3,090	394,322	2,027	244,404
Medical benefits	59	45,997	33	17,635
Contribution to pension fund	-	75,051	-	23,424
Leave encashment recovery	-	(2,504)	-	(10,330)
	<b>11,429</b>	<b>1,463,958</b>	<b>10,412</b>	<b>655,944</b>
Number of persons including those who worked part of the year	<b>1</b>	<b>746</b>	<b>1</b>	<b>337</b>

Executive means any employee whose basic salary exceeds Rs 500,000 (2007: Rs 500,000) per year.

The above were provided with medical facilities and are eligible for employee benefits for which contributions are made based on actuarial valuations. The chief executive and certain executives were provided with free use of cars.

The aggregate amount charged in these financial statements in respect of fee to 10 directors (2007: 9) was Rs 365,000 (2007: Rs 515,000).

## 36 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

**36.1** The Control of Company's plant at Uch field, due to purchase of total output by UPL an Independent Power Producer (IPP), appears to fall in the definition of leases in accordance with the requirements of IFRIC-4 "Determining whether an Arrangement contains a Lease". However, the management has not applied IFRIC-4 to its Uch plant as the impact of this is not considered to be material.

### 36.2 Initial application of a standard or an interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 31.3 to the financial statements.

### 36.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments in approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases:

Revised IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 01 January 2009).

Revised IAS 23 - Borrowing Costs (effective from 01 January 2009).

IAS 29 - Financial Reporting in Hyperinflationary Economies (applicable for period beginning from 01 July 2008).

IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 01 January 2009).

IFRS 2 (amendment) - Share-based Payments (effective for annual periods beginning on or after 01 January 2009).



# Notes to the Financial Statements

for the year ended 30 June 2008

IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27 - Consolidated and Separate Financial Statements, IAS 28 - Investment in associates and IAS 31 - Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 July 2009).

IFRS 7 - Financial Instruments: Disclosures (applicable for periods beginnings from 01 July 2008).

IFRS 8 - Operating Segments (effective from 01 January 2009).

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 01 January 2008).

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008).

IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 01 January 2008).

IFRIC 15 - Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 01 January 2009).

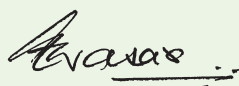
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (annual periods beginning on or after 01 October 2008).

## 37 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors proposed final dividend at the rate of Rs 3.50 per share in its meeting held on 20 August 2008.

## 38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 20 August 2008 by the Board of Directors of the Company.



Chairman



Chief Executive



# Consolidated Financial Statements 2008



# Auditors' Report to the Members


of Oil and Gas Development Company Limited

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Oil and Gas Development Company Limited ("the Company") as at 30 June 2008 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Oil and Gas Development Company Limited. The financial statements of subsidiary company were audited by M/s KPMG Taseer Hadi & Co., Chartered Accountants as sole auditors, whose report was forwarded to M/s M. Yousuf Adil Saleem & Co., Chartered Accountants and their opinion insofar as it relates to the amounts included for such company is based solely on the report of M/s KPMG Taseer Hadi & Co., Chartered Accountants. These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position of the Company as at 30 June 2008 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Without qualifying our opinion we draw attention to paragraph 4 of note 1 to the consolidated financial statements. The Board of Directors has approved in principle the subsidiary company's merger with the Company and hence the subsidiary company is not considered to be a going concern. However, the assets and liabilities of the subsidiary company have not been stated at their expected realisable and settlement values as these would be merged in Company at book values as both the companies are under common control.



**KPMG TASEER HADI & Co.**

Chartered Accountants

Islamabad

August 20, 2008



**M. YOUSUF ADIL SALEEM & Co.**

Chartered Accountants

Islamabad

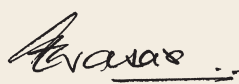
August 20, 2008

# Consolidated Balance Sheet

as at 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	43,009,284	43,009,284
Capital reserve	5	3,503,064	3,274,228
Unappropriated profit		63,902,995	60,652,540
		<b>110,415,343</b>	<b>106,936,052</b>
<b>NON CURRENT LIABILITIES</b>			
Deferred taxation	6	12,131,932	11,078,919
Deferred employee benefits	7	1,528,444	1,423,132
Provision for decommissioning cost	8	6,795,141	6,049,620
		<b>20,455,517</b>	<b>18,551,671</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	17,215,555	11,259,069
Provision for taxation	10	4,223,048	-
		<b>21,438,603</b>	<b>11,259,069</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11		
		<b>152,309,463</b>	<b>136,746,792</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



	Note	2008 (Rupees '000)	2007
<b>NON CURRENT ASSETS</b>			
Fixed assets			
Property, plant and equipment	12	23,229,631	21,810,882
Development and production assets - intangible	13	36,808,041	29,311,570
Exploration and evaluation assets	14	7,672,444	6,365,706
		67,710,116	57,488,158
Long term investments	15	2,860,132	2,610,267
Long term loans and receivables	16	1,806,620	1,685,589
Long term prepayments		108,937	39,821
		72,485,805	61,823,835
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	17	16,615,095	13,605,051
Stock in trade		151,782	93,788
Trade debts	18	40,705,299	28,018,145
Loans and advances	19	2,339,037	1,540,689
Deposits and short term prepayments	20	679,165	293,130
Interest accrued		180,295	318,444
Other receivables	21	638,921	1,335,255
Other financial assets	22	10,207,516	19,153,959
Advance tax	10	-	5,700,810
Cash and bank balances	23	8,306,548	4,863,686
		79,823,658	74,922,957
		152,309,463	136,746,792

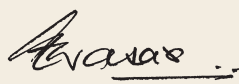
  
Chief Executive

# Consolidated Profit and Loss Account

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
Sales - net	24	125,908,304	100,733,011
Royalty		(17,320,187)	(10,936,421)
Operating expenses	25	(19,613,345)	(19,167,391)
Transportation charges		(1,472,615)	(1,087,931)
		<u>(38,406,147)</u>	<u>(31,191,743)</u>
Gross profit		87,502,157	69,541,268
Other income	26	3,865,536	3,986,129
Exploration and prospecting expenditure	27	(6,612,836)	(7,406,280)
General and administration expenses	28	(1,248,640)	(1,289,647)
Provision for impairment loss	29	(319,283)	(375,000)
Finance cost	30	(536,799)	(532,670)
Workers' profit participation fund	21.1	(4,387,411)	(3,213,617)
Share of profit in associated company	15.1	44,680	44,326
<b>PROFIT BEFORE TAXATION</b>		<b>78,307,404</b>	60,754,509
Taxation	31	(33,969,293)	(15,499,723)
<b>PROFIT FOR THE YEAR</b>		<b>44,338,111</b>	45,254,786

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman



Chief Executive

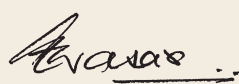


# Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>Cash flows from operating activities</b>			
Profit before taxation		78,307,404	60,754,509
Adjustments for:			
Depreciation		3,129,882	3,202,112
Amortization of development and production assets		4,961,145	3,800,988
Royalty		17,320,187	10,936,421
Workers' profit participation fund		4,387,411	3,213,617
Provision for employee benefits		759,409	198,035
Unwinding of discount on provision for decommissioning cost		527,695	526,790
Interest income		(2,653,859)	(3,636,515)
Unrealized loss/(gain) on investments at fair value through profit or loss		42,225	(60,386)
Dividend income		(28,150)	(26,333)
Fixed assets reconciliation adjustment		59,094	-
Gain on disposal of property, plant and equipment		(114,615)	(32,959)
Interest income on long term receivables		(54,789)	(134,517)
Provision for impairment loss		319,283	375,000
Share of profit in associated company		(44,680)	(44,326)
Trade debts written off		1,445	-
Provision for doubtful advances		(9,864)	(5,430)
		<b>106,909,223</b>	<b>79,067,006</b>
<b>Working capital changes</b>			
(Increase)/decrease in current assets:			
Stores, spare parts and loose tools		(3,010,044)	(2,187,430)
Stock in trade		(57,994)	(28,180)
Trade debts		(12,688,599)	(3,517,354)
Deposits and short term prepayments		(386,035)	12,506
Loans, advances and other receivables		(435,009)	394,923
Increase in current liabilities:			
Trade and other payables		2,188,473	1,192,297
<b>Cash generated from operations</b>		<b>92,520,015</b>	<b>74,933,768</b>
Royalty paid		(13,112,399)	(9,768,793)
Employee benefits paid		(906,179)	(327,302)
Payments of workers' profit participation fund - net		(3,910,117)	(3,484,051)
Income taxes paid		(22,992,422)	(24,141,004)
		<b>(40,921,117)</b>	<b>(37,721,150)</b>
<b>Net cash from operating activities</b>		<b>51,598,898</b>	<b>37,212,618</b>
<b>Cash flows from investing activities</b>			
Capital expenditure		(18,347,224)	(16,476,617)
Interest received		2,962,831	4,034,617
Dividends received		52,081	49,853
Purchase of investments		(450,000)	(450,000)
Proceeds from encashment of investments		50,061	73,341
Proceeds from disposal of property, plant and equipment		214,535	35,462
Long term prepayments		(69,116)	18,200
<b>Net cash used in investing activities</b>		<b>(15,586,832)</b>	<b>(12,715,144)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(41,473,422)	(38,154,089)
<b>Net cash used in financing activities</b>		<b>(41,473,422)</b>	<b>(38,154,089)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(5,461,356)</b>	<b>(13,656,615)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>23,737,736</b>	<b>37,394,351</b>
<b>Cash and cash equivalents at end of the year</b>	33	<b>18,276,380</b>	<b>23,737,736</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



Chairman

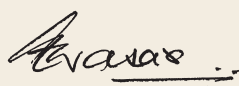


Chief Executive

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2008

	Share capital	Capital reserve Bonus share	Specific	Unappropriated profit	Total equity
	(Rupees '000)				
Balance at 01 July 2006	43,009,284	836,000	2,219,027	55,400,544	101,464,855
<b>Changes in equity for the year ended 30 June 2007</b>					
Final dividend 2006: Rs 3.75 per share	-	-	-	(16,128,482)	(16,128,482)
First interim dividend 2007: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2007: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2007: Rs 2.00 per share	-	-	-	(8,601,857)	(8,601,857)
Transfer to capital reserve	-	-	219,201	(219,201)	-
Profit for the year	-	-	-	45,254,786	45,254,786
Total recognized income for the year	-	-	-	45,254,786	45,254,786
Balance at 30 June 2007	43,009,284	836,000	2,438,228	60,652,540	106,936,052
Balance at 01 July 2007	43,009,284	836,000	2,438,228	60,652,540	106,936,052
<b>Changes in equity for the year ended 30 June 2008</b>					
Final dividend 2007: Rs 3.50 per share	-	-	-	(15,053,249)	(15,053,249)
First interim dividend 2008: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2008: Rs 2.00 per share	-	-	-	(8,601,857)	(8,601,857)
Third interim dividend 2008: Rs 2.25 per share	-	-	-	(9,677,089)	(9,677,089)
Transfer to capital reserve	-	-	228,836	(228,836)	-
Profit for the year	-	-	-	44,338,111	44,338,111
Total recognized income for the year	-	-	-	44,338,111	44,338,111
Balance at 30 June 2008	43,009,284	836,000	2,667,064	63,902,995	110,415,343



Chairman



Chief Executive



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Parent Company", was incorporated on 23 October 1997 under the Companies Ordinance, 1984. The registered office of the Parent Company is located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan. The Parent Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Parent Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. The Parent Company is listed on all the three stock exchanges of Pakistan and its Global Depository Shares (1GDS = 10 Ordinary shares of the Parent Company) are listed on the London Stock Exchange.

Government of Pakistan (GoP) owns 85.02% (2007: 85.02%) of the Ordinary shares of the Parent Company as of 30 June 2008.

The Parent Company has a wholly owned subsidiary namely Pirkoh Gas Company (Private) Limited ("the Subsidiary Company"). The Subsidiary Company was incorporated in 1982 as a private limited company under the repealed Companies Act, 1913. It is engaged in the exploration and development of natural gas resources, including production and sale of natural gas and related activities.

The Board of Directors of the Subsidiary Company in consultation with the Privatization Commission of Pakistan has approved the merger of the Subsidiary Company with its Parent Company and therefore, the Subsidiary Company is not a going concern. The assets and liabilities of the Subsidiary Company have not been stated at its realizable and expected settlement values as these would be merged in Parent Company's books at book values as both the entities are under common control.

## 2 BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

These consolidated financial statements ("financial statements") have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Parent Company and the Subsidiary Company together constituting "the Group" statements. Subsidiaries are those enterprises in which the Parent Company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the Subsidiary Company are included in the consolidated financial statements from the date the control commences until the date the control ceases. The financial statements of Subsidiary Company have been consolidated on a line by line basis. All material inter company balances, transactions and resulting unrealized profits/(losses) have been eliminated.

### 2.3 BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost basis except that obligations under certain employee benefits and provision for decommissioning cost have been measured at present value, investments at fair value through profit or loss and investments available for sale have been measured at fair market value and investments held to maturity have been recognized at amortized cost.

### 2.4 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Pak Rupee which is the Group's functional currency. All financial information presented has been rounded off to the nearest thousand of rupees, unless otherwise stated.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 2.5 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### 2.5.1 Property, plant and equipment

The Group reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

### 2.5.2 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in impairment testing for development and production assets of the Group. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated with reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Changes to the estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

### 2.5.3 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amount of provision recognized are based on current legal and constructive requirements, technology and price levels. Provision is based on the best estimates, however, the actual outflows can differ from estimated cash outflows due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of provision is reviewed and adjusted to take account of such changes.

### 2.5.4 Employee benefits

Defined benefits plans are provided for permanent employees of the Group. The plans are structured as separate legal entities managed by trustees except post retirement medical benefits and accumulating compensated absences plan for which deferred liability is recognized in the Group's financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, medical benefit rate, the expected long term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined by independent actuaries annually.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market related value at the beginning of the year. Pension cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employee service during the year and the interest on the obligation in respect of employee's service in previous years, net of the expected return on plan assets. Calculations are sensitive to changes in the underlying assumptions.

## 2.5.5 Taxation

The Group takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Group's view differs from the view taken by the income tax department at the assessment stage and where the Group considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 EMPLOYEE BENEFITS

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Group. The accounting policy for pension, post retirement medical benefits and accumulating compensated absences is described below:

#### 3.1.1 Pension, post retirement medical benefits and accumulating compensated absences

The Group operates an approved funded pension scheme under an independent trust for its permanent employees as a defined benefit plan.

The Group also provides post retirement medical benefits to its permanent employees and their families as a defined benefit plan.

The Group also has a policy whereby all its permanent employees are eligible to encash accumulated leave balance at the time of retirement or during the service.

The Group makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried as of 30 June 2008. The calculations of actuaries are based on the projected unit credit method, net of the assets guaranteeing the plan, if any, with the obligation increasing from year to year, in a manner that it is proportional to the length of service of the employees.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets, if any, is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. Fair value of the benefit plans is based on market price information and, contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable, while actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of plan assets and present value of obligation) are recognized over the average expected remaining working lives of the employees.

### 3.2 TAXATION

Taxation for the year comprises current and deferred tax. Taxation is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, if any, in which case the tax amounts are recognized in equity.

#### 3.2.1 Current

Provision for current taxation is based on taxable income at applicable tax rates adjusted for payments to the GoP on account of royalty.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 3.2.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

## 3.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any except freehold land and capital work in progress which are stated at cost less impairment loss, if any. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in the note 3.4.4 to the financial statements.

Depreciation is provided on straight line method at rates specified in note 12 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Subsequent costs are included in the assets carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repair and maintenance is charged to income during the year. Gains and losses on disposal of property, plant and equipment are included in the profit and loss account currently.

Capital work in progress is stated at cost less accumulated impairment losses, if any, and are transferred to the respective item of property, plant and equipment when available for intended use.

Impairment tests for property, plant and equipment are performed when there is an indication of impairment. At each year end, an assessment is made to determine whether there are any indications of impairment. If any, indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value of the asset less cost to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as to reduce the carrying amount of the property, plant and equipment to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and does take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units. Cash generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where conditions giving rise to impairment subsequently reverse, the carrying amount of the property, plant and equipment is increased to its revised recoverable amount but limited to the extent of initial cost of the property, plant and equipment.

## 3.4 OIL AND GAS ASSETS

The Group applies the "successful efforts" method of accounting for Exploration and Evaluation (E&E) costs.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 3.4.1 Pre license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the profit and loss account as they are incurred.

## 3.4.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions, exploratory/evaluation drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centers as appropriate, pending determination.

Costs directly associated with an exploratory well are capitalized as an intangible asset until the drilling of the well is completed and results have been evaluated. Major costs include employee benefits, material, chemical, fuel, well services and rig costs. All other exploration costs including cost of technical studies, seismic acquisition and data processing, geological and geophysical activities are charged currently against income as exploration and prospecting expenditure.

Tangible assets used in E&E activities other than stores held, include the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Group's exploration function and are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is then reclassified as development and production assets and if commercial reserves have not been found, the capitalized costs are written off as dry and abandoned wells.

E&E assets are not amortized prior to the conclusion of appraisal activities.

## 3.4.3 Development and production assets - intangible

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 3.4.2 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

Expenditure carried within each field is amortized from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the year to the estimated quantities of commercial reserves at the end of the year plus the production during the year, on a field by field basis. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

## 3.4.4 Decommissioning cost

The activities of the Group normally give rise to obligations for site restoration. Restoration activities may include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration.

The Group makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfill the obligation of site restoration and rehabilitation. The amount recognized is the estimated cost of decommissioning, discounted to its net present value and is reassessed every three years. The latest estimates were made as at 30 June 2006 in Parent Company and as at 30 June 2008 in the Subsidiary Company. The expected outflow of economic resources to settle this obligation is up to next 25 years. Decommissioning cost, as appropriate, relating to producing/shut-in fields and production facilities is capitalized to the cost of development and production assets and property, plant and equipment as the case may be. The recognized amount of decommissioning cost is subsequently amortized/depreciated as part of the capital cost of the development and production assets and property, plant and equipment.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

While the provision is based on the best estimate of future costs and the economic lives of the facilities and property, plant and equipment there is uncertainty regarding both the amount and timing of incurring these costs. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment and development and production assets. The unwinding of the discount on the provision for decommissioning cost is recognized as finance cost.

During the year, the Subsidiary Company revised its estimates of outflows of resources to settle decommissioning liability based on future projected cost adjusted to present value. This has been treated as change in accounting estimates, applied prospectively, in accordance with IFRIC-1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

Following line items would not have been effected had there been no change in estimates:

	(Rs in million)
Provision for decommissioning cost would have been higher by	252.952
Provision for impairment loss would have been higher by	143.799
Amortization charge would have been higher by	30.585
Unappropriated profit would have been lower by	223.472

## 3.4.5 Impairment of oil and gas assets

E&E assets are assessed for impairment when facts and circumstances indicate that carrying amount may exceed the recoverable amount of E&E assets. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Group has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of the development and production assets may exceed its recoverable amount. Such circumstances depend on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, the production costs, the contractual duration of the production field and the net selling price of the hydrocarbons produced.

The carrying value is compared against expected recoverable amount of the oil and gas assets, generally by reference to the present value of the future net cash flows expected to be derived from such assets. The cash generating unit applied for impairment test purpose is generally field by field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account, net of any depreciation that would have been charged since the impairment.

## 3.5 INVESTMENTS

All purchases and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Group. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### 3.5.1 Investments in associated company

Investments in associates, where significant influence can be established, are accounted for under the equity method. Equity method is applied from the date when significant influence is established.

Associates are those entities in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture of the Parent Company.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 3.5.2 Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Group has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

## 3.5.3 Investments available for sale

All investments classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

## 3.5.4 Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gain or loss recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.

## 3.6 STORES, SPARE PARTS AND LOOSE TOOLS

Stores, spare parts and loose tools are valued at the lower of cost and net realizable value less allowance for slow moving and obsolete items. Cost is determined on the weighted average basis and comprises costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

The Group reviews the carrying amount of stores and spare parts on a regular basis and provision is made for obsolescence.

## 3.7 STOCK IN TRADE

Stock in trade is valued at the lower of production cost and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of production and selling expenses.

## 3.8 INTANGIBLES

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment, if any.

## 3.9 REVENUE RECOGNITION

Revenue from sales is recognized when significant risks and rewards of ownership are transferred to the buyer. Revenue from extended well testing is recognized as income on delivery of goods to customers. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

Revenue from services is recognized on rendering of services to customers.

The Group recognizes interest if any, on delayed payments from customers on receipt basis.

Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Income on investments is recognized on time proportion basis taking into account the effective yield of such securities.

Dividend income on equity investments is recognized when the right to receive the payment is established.

## 3.10 BORROWING COSTS

Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

## 3.11 JOINT VENTURE OPERATIONS

The Group has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participants such that the operation itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that financial and operational policies of such joint venture are those of participants. The financial statements of the Group include its share of assets, liabilities and expenses in such joint venture operations which is pro rata to Group's interest in the joint venture operations.

The Group's share of assets, liabilities and expenses in joint venture operations are accounted for on the basis of latest available audited financial statements of the joint venture operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date.

## 3.12 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

## 3.13 PROVISIONS

Provisions are recognized in the balance sheet when the Group has a legal or constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

## 3.14 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. These are derecognized when the Group ceases to be a party to the contractual provisions of the instrument.

Financial assets mainly comprise investments, loans, advances, deposits, trade debts, other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are creditors, accrued and other payables.

All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

## 3.15 OFFSETTING

Financial assets and liabilities and tax assets and liabilities are set off in the balance sheet, only when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

## 3.16 TRADE DEBTS

Trade debts and other receivables are stated at original invoice amount as reduced by appropriate provision for impairment. Bad debts are written off when identified while debts considered doubtful of recovery are fully provided for. Provision for doubtful debts is charged to profit and loss account currently.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 3.17 TRADE AND OTHER PAYABLES

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

## 3.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost, except for foreign currency deposits which are carried at fair value.

## 3.19 DIVIDEND

Dividend is recognized as a liability in the period in which it is declared.

## 3.20 SELF INSURANCE SCHEME

The Group is following a policy to set aside specific reserve for self insurance of rigs, wells, plants, pipelines, vehicles, workmen compensation, losses of petroleum products in transit and is keeping such reserve invested in specified investments.

## 3.21 IMPAIRMENT

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash generating unit, the recoverable amount is deemed to be the value in use. Impairment losses are recognized as expense in the profit and loss account.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

## 4 SHARE CAPITAL

### Issued, subscribed and paid up capital

2008 Number	2007		2008 (Rupees '000)	2007
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 4.1)	10,752,321	10,752,321
3,225,696,300	3,225,696,300	Ordinary shares of Rs 10 each issued as fully paid bonus shares	32,256,963	32,256,963
<u>4,300,928,400</u>	<u>4,300,928,400</u>		<u>43,009,284</u>	<u>43,009,284</u>

- 4.1 In consideration for all the properties, rights, assets, obligations and liabilities of OGDC vested in the Parent Company, 1,075,232,100 Ordinary fully paid shares of Rs 10 each were issued to GoP on 23 October 1997. Currently, the GoP holds 85.02% paid up capital of the Parent Company.

### Authorized share capital

This represents 5,000,000,000 (2007: 5,000,000,000) Ordinary shares of Rs 10 each.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>5 CAPITAL RESERVE</b>			
Bonus shares reserve	5.1	836,000	836,000
Specific reserve	5.2	2,667,064	2,438,228
		<u>3,503,064</u>	<u>3,274,228</u>

**5.1** This represents bonus shares issued by the Subsidiary Company.

**5.2** The Group has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation, vehicle repair and losses for petroleum products in transit. Refer note 15.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.

	2008 (Rupees '000)	2007
<b>6 DEFERRED TAXATION</b>		
The balance of deferred tax is in respect of following temporary differences:		
Accelerated depreciation on property, plant and equipment	3,489,838	2,484,606
Expenditure of exploration and evaluation, development and production assets	12,235,583	10,118,747
Provision for decommissioning cost	(1,878,957)	-
Long term receivables	(27,191)	-
Provision for doubtful debts	(1,414,219)	(1,269,402)
Provision for slow moving and obsolete stores	(273,122)	(255,032)
	<u>12,131,932</u>	<u>11,078,919</u>

Deferred tax liability has been calculated at the current effective tax rate of 31.01% (2007: 28.96%) after taking into account depletion allowance and set offs, where available, in respect of royalty payments to the GoP.

	Note	2008 (Rupees '000)	2007
<b>7 DEFERRED EMPLOYEE BENEFITS</b>			
Post retirement medical benefits	7.1	841,975	807,382
Accumulating compensated absences	7.2	686,469	615,750
		<u>1,528,444</u>	<u>1,423,132</u>



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	2008 (Rupees '000)	2007 (Rupees '000)
<b>7.1 Post retirement medical benefits</b>		
The amount recognized in the balance sheet is as follows:		
Present value of defined benefit obligation	1,901,688	608,371
Unrecognized actuarial (loss)/gain	(1,059,713)	199,011
Net liability at end of the year	841,975	807,382
Movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation at beginning of the year	608,371	538,894
Current service cost	65,124	24,173
Interest cost	60,837	53,889
Benefits paid	(71,629)	(21,553)
Actuarial loss	1,238,985	12,968
Present value of defined benefit obligation at end of the year	1,901,688	608,371
Expense recognized in profit and loss account:		
Current service cost	65,124	24,173
Interest cost	60,837	53,889
Net actuarial gain recognized	(19,739)	(22,584)
	106,222	55,478
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	52,437	28,825
General and administration expenses	16,731	3,953
Technical services	37,054	22,700
	106,222	55,478
Significant actuarial assumptions used were as follows:		
Discount rate per annum	12%	10%
Medical inflation rate per annum	7%	6%
Inflation rate per annum	3%	2%
Mortality rate	61~66 years	61~66 years
A one percent change in the medical cost trend rate would have the following effect:		
	2008 (Rupees '000)	
	1% increase	1% decrease
Present value of medical obligation	2,208,532	1,652,934
Current service cost and interest cost	308,208	223,693
	2008 (Rupees '000)	2007 (Rupees '000)

## 7.2 Accumulating compensated absences

Present value of defined benefit obligation	615,750	646,788
Charge for the year	70,719	(31,038)
Net liability at end of the year	686,469	615,750

The rates of discount and salary increase were assumed at 12% (2007: 10%) each per annum.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>8 PROVISION FOR DECOMMISSIONING COST</b>			
Balance at beginning of the year		6,049,620	5,036,478
Provision made during the year		392,210	486,352
		<u>6,441,830</u>	<u>5,522,830</u>
Reversal of decommissioning cost of development and production assets due to revision in estimates		(174,384)	-
Unwinding of discount on provision for decommissioning cost		527,695	526,790
Balance at end of the year		<u>6,795,141</u>	<u>6,049,620</u>
The above provision for decommissioning cost is analyzed as follows:			
Wells		5,069,185	4,875,720
Production facilities		671,471	647,110
Unwinding of discount on provision for decommissioning cost:			
Wells		916,925	462,144
Production facilities		137,560	64,646
		<u>1,054,485</u>	<u>526,790</u>
		<u>6,795,141</u>	<u>6,049,620</u>
Significant assumptions used were as follows:			
Discount rate per annum		10.2%	10.2%
Inflation rate per annum		7.63%	7.63%
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		345,588	290,116
Accrued liabilities		5,451,929	3,419,242
Royalty		6,664,330	2,456,542
Excise duty		105,357	105,700
General sales tax		584,886	1,371,030
Payable to joint venture partners		1,369,547	1,028,288
Retention money		278,088	212,766
Trade deposits		99,262	94,581
Workers' profit participation fund	21.1	174,827	-
Unpaid dividend		1,450,691	2,102,291
Unclaimed dividend		102,788	65,790
Employees' pension trust	9.1	-	-
Advances from customers		174,341	35,756
Other payables		413,921	76,967
		<u>17,215,555</u>	<u>11,259,069</u>



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 9.1 Employees' pension trust

The amount recognized in the balance sheet is as follows:

	2008 (Rupees '000)	2007
Present value of defined benefit obligation	11,262,067	9,320,649
Fair value of plan assets	(10,024,651)	(9,179,845)
Deficit of the fund	1,237,416	140,804
Unrecognized actuarial gain	(1,237,416)	(140,804)
Net liability at end of the year	-	-

The movement in the present value of defined benefit obligation is as follows:

Present value of defined benefit obligation at beginning of the year	9,320,649	7,622,259
Current service cost	505,591	377,563
Interest cost	932,065	762,226
Benefits paid	(348,184)	(231,530)
Actuarial loss	851,946	790,131
Present value of defined benefit obligation at end of the year	11,262,067	9,320,649

The movement in the fair value of plan assets is as follows:

Fair value of plan assets at beginning of the year	9,179,845	8,340,395
Expected return on plan assets	917,985	834,040
Contributions	519,671	305,749
Benefits paid	(348,184)	(231,530)
Actuarial loss	(244,666)	(68,809)
Fair value of plan assets at end of the year	10,024,651	9,179,845

Expense recognized in profit and loss account:

Current service cost	505,591	377,563
Interest cost	932,065	762,226
Expected return on plan assets	(917,985)	(834,040)
	519,671	305,749

Plan assets comprise:

Bonds	9,088,876	8,567,514
Equity	906,236	607,943
Cash and bank balances	29,539	4,388
	10,024,651	9,179,845

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based exclusively on historical returns, without adjustments.

The expense is recognized in the following line items in profit and loss account:

	2008 (Rupees '000)	2007
Operating expenses	229,614	134,149
General and administration expenses	101,119	62,146
Technical services	188,938	109,454
	519,671	305,749

Actual return on plan assets

	673,319	765,000
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# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Comparison of present value of defined benefit obligation, fair value of plan assets and surplus or deficit of pension fund for five years is as follows:

	2008	2007	2006	2005	2004
	(Rupees '000)				
Present value of defined benefit obligation	11,262,067	9,320,649	7,622,259	7,543,651	6,325,301
Fair value of plan assets	(10,024,651)	(9,179,845)	(8,340,395)	(7,543,484)	(7,423,308)
Deficit/(surplus)	1,237,416	140,804	(718,136)	167	(1,098,007)
Experience adjustments on obligation	(851,946)	(790,131)	704,756	(595,374)	(1,193,227)
Experience adjustments on plan assets	(244,666)	(68,809)	(35,493)	(455,275)	2,973,112

Significant actuarial assumptions used were as follows:

	2008	2007
Discount rate per annum	12%	10%
Rate of increase in future compensation levels per annum	12%	10%
Expected rate of return on plan assets per annum	12%	10%
Indexation rate per annum	5%	3%

The Group expects to make a contribution of Rs 740.557 million to the employees' pension trust during the next financial year.

	2008	2007
	(Rupees '000)	
10 PROVISION FOR TAXATION		
(Advance tax)/tax payable at beginning of the year	(5,700,810)	3,824,189
Income tax paid during the year	(22,992,422)	(24,141,004)
Provision for taxation - current	21,039,758	14,616,005
Provision for taxation - prior years	11,876,522	-
Tax payable/(advance tax) at end of the year	4,223,048	(5,700,810)

## 11 CONTINGENCIES AND COMMITMENTS

- 11.1** Claims against the Parent Company not acknowledged as debts amounted to Rs 229.420 million at year end (2007: Rs 232.491 million).
- 11.2** At present Qadirpur Gas Price is being notified by Oil and Gas Regulatory Authority (OGRA) on the basis of a provisional discount table for High Sulphur Fuel Oil (HSFO) price upto the maximum limit of USD 200 per metric ton notified by Ministry of Petroleum and Natural Resources. In terms of article 4.1(b) of Qadirpur Gas Pricing Agreement, the Parent Company has taken up the matter with GoP for notification of step discounts to be used in the calculation of gas price at HSFO prices exceeding USD 200 per metric ton. To date no agreement has been reached on said step discounts between the Parent Company and GoP. After settlement of discount issue which can not be quantified at this stage, gas prices will be adjusted with effect from July 2005. Since the gas prices during the year 2005-06 were notified on the basis of existing table, therefore, there may be some adjustment pertaining to that year whenever the discount levels are finalized.
- 11.3** Commitments outstanding against the Parent Company at year end amounted to Rs 18,909.109 million (2007: Rs 12,256.639 million). These include amounts aggregating to Rs 967.227 million (2007: Rs 2,672.684 million) representing the Parent Company's share in the minimum work commitments related to operated/non-operated concessions.
- 11.4** Letters of credit issued by various banks on behalf of the Parent Company in ordinary course of the business, outstanding at the year end amounted to Rs 6,504.968 million (2007: Rs 4,318.176 million).
- 11.5** Certain banks have issued guarantees on behalf of the Parent Company in ordinary course of business aggregating Rs 444.844 million (2007: Rs 104.844 million), refer note 23.1 to the financial statements.
- 11.6** For contingencies relating to tax matters, refer note 31.2 to the financial statements.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 12 PROPERTY, PLANT AND EQUIPMENT

Description	Freehold land	Leasehold land	Buildings, offices and roads on freehold land	Buildings, offices and roads on leasehold land	Plant and machinery	Rigs	Pipelines	Office and domestic equipment	Office and technical data computers	Furniture and fixtures	Aircraft	Vehicles	Decommissioning cost	Capital work in progress (Note 12.3)	Stores held for capital expenditure	Total
<b>Cost</b>																
Balance as at 01 July 2006	147,966	373,698	1,823,634	787,806	33,321,743	873,519	7,974,509	448,287	484,359	53,079	19,855	2,378,230	470,504	1,090,845	677,441	50,925,475
Additions	7,125	2,821	114,713	31,004	1,797,008	152,361	434,448	44,590	83,976	5,691	-	706,502	176,606	752,871	389,578	4,699,294
Disposals / transfers	-	-	-	-	(26,026)	(5,195)	-	(4,002)	(13,264)	-	-	(71,579)	-	(37,233)	(62,235)	(219,534)
Balance as at 30 June 2007	155,091	376,519	1,938,347	818,810	35,092,725	1,020,685	8,408,957	488,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
Balance as at 01 July 2007	155,091	376,519	1,938,347	818,810	35,092,725	1,020,685	8,408,957	488,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
Additions	2,039	90,775	283,157	62,897	2,798,050	162,515	435,820	48,717	31,827	10,130	-	254,150	24,361	749,222	592,746	5,546,406
Disposals / transfers	-	-	(11,990)	(63,372)	(264,151)	(68,521)	(11,137)	(22,353)	(145,763)	(22,280)	-	(143,826)	-	(190,036)	(301,639)	(1,245,068)
Balance as at 30 June 2008	157,130	467,294	2,209,514	818,335	37,626,624	1,114,679	8,833,640	515,239	441,135	46,620	19,855	3,123,477	671,471	2,365,669	1,295,891	59,706,573
<b>Depreciation</b>																
Balance as at 01 July 2006	-	126,023	456,883	350,848	22,701,059	596,589	3,120,020	318,153	416,557	22,335	17,869	1,906,346	120,133	-	-	30,151,815
Charge for the year	-	10,157	94,078	94,760	1,979,692	49,404	739,592	30,027	42,724	6,909	-	182,040	88,842	-	139,954	3,458,179
On disposals / transfers	-	-	-	-	(25,752)	(5,153)	-	(3,853)	(13,140)	-	-	(69,665)	-	-	-	(117,563)
Balance as at 30 June 2007	-	136,180	550,961	445,608	24,654,999	639,840	3,859,612	344,327	446,141	29,244	17,869	2,018,721	208,975	-	139,954	33,492,431
Balance as at 01 July 2007	-	136,180	550,961	445,608	24,654,999	639,840	3,859,612	344,327	446,141	29,244	17,869	2,018,721	208,975	-	139,954	33,492,431
Charge for the year	-	10,976	99,722	72,975	1,942,943	67,682	762,692	35,242	54,039	5,657	-	291,487	85,997	-	134,088	3,563,500
On disposals / transfers	-	-	(4,498)	(40,155)	(215,778)	(68,321)	(11,131)	(21,278)	(145,067)	(9,615)	-	(141,010)	-	-	(24,058)	(680,911)
Balance as at 30 June 2008	-	147,156	646,185	478,428	26,382,164	639,201	4,611,173	358,291	355,113	25,286	17,869	2,169,198	294,972	-	249,984	36,375,020
<b>Impairment loss</b>																
Balance as at 01 July 2007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Charge for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2008	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Carrying amount - 2007	155,091	240,339	1,387,386	373,202	10,437,726	380,845	4,540,345	144,548	108,930	29,526	1,986	994,432	438,135	1,806,483	864,830	21,810,882
<b>Carrying amount - 2008</b>	<b>157,130</b>	<b>320,138</b>	<b>1,563,329</b>	<b>339,907</b>	<b>11,244,460</b>	<b>475,478</b>	<b>4,222,467</b>	<b>158,948</b>	<b>86,022</b>	<b>21,334</b>	<b>1,986</b>	<b>954,279</b>	<b>376,499</b>	<b>2,365,669</b>	<b>1,045,907</b>	<b>23,229,631</b>
Rates of depreciation (%)	-	1-3.3	2.5-8	2.5-8	4-20	10	10	15	30	15	10	20	1-10	-	-	25

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

- 12.1** Cost and accumulated depreciation as at 30 June 2008 include Rs 15,223.150 million (2007: Rs 12,743.355 million) and Rs 8,274.394 million (2007 : Rs 7,190.478 million) respectively being the Parent Company's share in property, plant and equipment relating to joint ventures operated by others.

	Note	2008 (Rupees '000)	2007
<b>12.2 The depreciation charge has been allocated to:</b>			
Operating expenses	25	3,012,128	3,103,436
General and administration expenses	28	117,754	98,676
Technical services		433,618	256,067
		<u>3,563,500</u>	<u>3,458,179</u>

**12.3 Capital work in progress**

Production facilities and other civil works in progress:

Wholly owned  
Joint ventures

1,019,518	679,863
1,274,218	1,073,058
<u>2,293,736</u>	<u>1,752,921</u>

Construction cost of field offices and various bases/offices owned by the Parent Company

71,933	53,562
<u>2,365,669</u>	<u>1,806,483</u>

**12.4 Details of property, plant and equipment sold:**

	Cost	Book value (Rupees)	Sale proceeds
Vehicles sold to following retiring employees as per Group's policy:			
Mr. Najam Kamal Hyder	939,000	8,710	312,028
Mr. Khalid Mahmood	969,000	706,447	706,447
Mr. Abdul Waheed	969,000	670,777	670,777
Mr. Pervaiz Malik	969,000	712,030	712,030
Mr. Khizer Mahmood	943,000	493,937	493,937
Mr. Mehboob A. Malik	943,000	394,629	394,629
Mr. Naeem Tahir	939,000	250,522	250,522
Mr. Abdul Saboor Khan	939,000	26,699	26,699
Mr. Sartaj Ahmed	548,730	1,000	1,000
Mr. Yaqoob Sheikh	548,730	1,000	1,000
Mr. Syed Musa	548,780	5,202	5,202
Mr. Jamal ud Din	548,780	1,000	1,000
Mr. Aziz ur Rehman	555,000	312,151	312,151
Mr. Abdul Hussain	555,000	244,063	244,063
Mr. Muhammad Saeed	969,000	737,741	737,741
Mr. M. Abdul Waheed	548,780	23,512	23,512
Mr. Safdar Abbas	548,780	123,763	123,763
Mr. Yousuf Marwat	548,730	1,000	1,000
Mr. Asghar A. Khan	548,730	27,712	27,712
Mr. Muhammad Bashir	548,780	16,908	16,908
Mr. Hamid Rasheed	548,780	23,812	23,812
	15,176,600	4,782,615	5,085,933

Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.

	109,540,797	610,002	41,702,855
<b>2008</b>	<u>124,717,397</u>	<u>5,392,617</u>	<u>46,788,788</u>
<b>2007</b>	<u>120,066,579</u>	<u>2,503,822</u>	<u>35,462,245</u>



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 13 DEVELOPMENT AND PRODUCTION ASSETS - Intangible

(Rupees '000)								
Description	Producing fields		Shut-in fields		Wells in progress (Note 13.1)	Sub-total	Decom-missioning cost	Total
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				
Cost								
Balance as at 01 July 2006	17,100,043	17,407,003	913,183	3,096,818	1,224,183	39,741,230	4,565,974	44,307,204
Additions	4,544,434	2,834,346	766,302	1,403,482	5,879,043	15,427,607	309,746	15,737,353
Transfers	-	-	-	-	(5,003,553)	(5,003,553)	-	(5,003,553)
Balance as at 30 June 2007	21,644,477	20,241,349	1,679,485	4,500,300	2,099,673	50,165,284	4,875,720	55,041,004
Balance as at 01 July 2007	21,644,477	20,241,349	1,679,485	4,500,300	2,099,673	50,165,284	4,875,720	55,041,004
Additions	5,262,159	2,579,280	982,961	798,874	9,505,098	19,128,372	193,465	19,321,837
Transfers	-	-	-	-	(6,544,938)	(6,544,938)	-	(6,544,938)
Balance as at 30 June 2008	26,906,636	22,820,629	2,662,446	5,299,174	5,059,833	62,748,718	5,069,185	67,817,903
Amortization								
Balance as at 01 July 2006	11,045,543	7,268,894	368,081	141,085	-	18,823,603	2,831,765	21,655,368
Charge for the year	1,779,065	1,745,631	4,360	148	-	3,529,204	271,784	3,800,988
Balance as at 30 June 2007	12,824,608	9,014,525	372,441	141,233	-	22,352,807	3,103,549	25,456,356
Balance as at 01 July 2007	12,824,608	9,014,525	372,441	141,233	-	22,352,807	3,103,549	25,456,356
Charge for the year	2,517,668	2,151,644	298	59	-	4,669,669	291,476	4,961,145
Balance as at 30 June 2008	15,342,276	11,166,169	372,739	141,292	-	27,022,476	3,395,025	30,417,501
Impairment loss								
Balance as at 01 July 2007	162,213	-	-	-	-	162,213	110,865	273,078
Charge for the year	275,078	-	-	-	-	275,078	44,205	319,283
Balance as at 30 June 2008	437,291	-	-	-	-	437,291	155,070	592,361
Carrying amount - 2007	8,657,656	11,226,824	1,307,044	4,359,067	2,099,673	27,650,264	1,661,306	29,311,570
Carrying amount - 2008	11,127,069	11,654,460	2,289,707	5,157,882	5,059,833	35,288,951	1,519,090	36,808,041

### 13.1 Wells in progress

	2008	2007
(Rupees '000)		
Wholly owned	2,546,595	673,135
Joint ventures	2,513,238	1,426,538
	<b>5,059,833</b>	<b>2,099,673</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>14 EXPLORATION AND EVALUATION ASSETS</b>			
Balance at beginning of the year		1,875,370	2,551,149
Additions		8,135,406	8,069,762
		10,010,776	10,620,911
Cost of dry and abandoned wells	27	(4,109,145)	(4,200,530)
Cost of wells transferred to development and production assets		(3,078,336)	(4,545,011)
		(7,187,481)	(8,745,541)
		2,823,295	1,875,370
Stores held for exploration and evaluation activities	14.1	4,849,149	4,490,336
Balance at end of the year		7,672,444	6,365,706

## 14.1 Stores held for exploration and evaluation activities

Balance at beginning of the year	4,490,336	1,796,993
Additions	1,958,077	3,856,654
Issuances	(1,599,264)	(1,163,311)
Balance at end of the year	4,849,149	4,490,336

**14.2** The following disclosures detail the liabilities, current assets and expenditure incurred on exploration for and evaluation of mineral resources:

	Note	2008 (Rupees '000)	2007
Liabilities related to exploration and evaluation activities		489,757	526,695
Current assets related to exploration and evaluation activities		243,696	401,308
Exploration and prospecting expenditure	27	6,612,836	7,406,280

## 15 LONG TERM INVESTMENTS

Investments in related party	15.1	176,578	155,829
Investments held to maturity	15.2	2,683,554	2,454,438
		2,860,132	2,610,267

### 15.1 Investments in related party

#### Associated Company - quoted

Mari Gas Company Limited	155,829	135,023
Percentage holding 20% (2007: 20%)		
7,350,000 (2007: 7,350,000) fully paid Ordinary shares of Rs 10 each		
Market value Rs 1,981 million (2007: Rs 1,286 million)		
Share of profit for the year	44,680	44,326
Dividend received	(23,931)	(23,520)
	20,749	20,806
	176,578	155,829



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>15.2 Investments held to maturity</b>			
Defence Saving Certificates (DSCs)	15.2.1	<b>174,918</b>	389,097
Term Deposit Receipts (TDRs)	15.2.2	<b>2,508,636</b>	2,065,341
		<b><u>2,683,554</u></b>	<u>2,454,438</u>

**15.2.1** Face value of investments in DSCs is Rs 34.847 million (2007: Rs 84.908 million). These carry effective interest rates ranging between 16% to 18% (2007: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2009 to 2010.

**15.2.2** Face value of investments in TDRs is Rs 2,465 million (2007: Rs 2,015 million). These have maturity period upto six months and carry effective interest rates of 10.25% to 10.70% (2007: 10.80% to 11.60%) per annum.

**15.2.3** Investments amounting to Rs 2,678.315 million (2007: Rs 2,255.354 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments to the extent of capital reserve.

**15.2.4** The above investments are identified against capital reserve as explained in note 5 to the financial statements.

	Note	2008 (Rupees '000)	2007
<b>16 LONG TERM LOANS AND RECEIVABLES</b>			
Long term loans - secured	16.1	<b>1,324,059</b>	1,117,755
Long term receivables - unsecured	16.2	<b>482,561</b>	567,834
		<b><u>1,806,620</u></b>	<u>1,685,589</u>

## 16.1 Long term loans - secured

Considered good:			
Executives		<b>309,647</b>	71,034
Other employees		<b>1,239,745</b>	1,237,189
		<b><u>1,549,392</u></b>	<u>1,308,223</u>
Current portion shown under loans and advances	19	<b>(225,333)</b>	(190,468)
		<b><u>1,324,059</u></b>	<u>1,117,755</u>

## 16.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at 01 July 2007	Disbursements during the year	Adjustments during the year	Repayments during the year	Balance as at 30 June 2008
Due from:					
Executives	71,034	109,551	180,726	(51,664)	<b>309,647</b>
Other employees	1,237,189	344,293	(180,726)	(161,011)	<b>1,239,745</b>
	<u>1,308,223</u>	<u>453,844</u>	<u>-</u>	<u>(212,675)</u>	<u><b>1,549,392</b></u>

**16.1.2** The loans are granted to the employees of the Group in accordance with the Group's service rules. House building and conveyance loans are for maximum period of 15 and 5 years respectively. These loans are secured against the underlying assets. Included in these are loans of Rs 1,246.567 million (2007: Rs 1,043.686 million) which carry no interest. The balance amount carries an effective interest rate of 10.21% (2007: 10.65%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 309.647 million (2007: Rs 85.970 million).

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>16.2 Long term receivables - unsecured</b>			
Considered good		747,000	1,487,089
Reversal of impairment		(77,689)	(70,905)
		<u>669,311</u>	<u>1,416,184</u>
Current portion shown under other receivables	21	<u>(186,750)</u>	<u>(848,350)</u>
		<u>482,561</u>	<u>567,834</u>

The total receivables comprise Rs 747.00 million (2007: 887.06 million) receivable by the Subsidiary Company from Karachi Electric Supply Company Limited (KESC), as a result of inter corporate debt adjustment approved by the Government of Pakistan in February, 1999, pursuant to the Economic Coordination Committee of Cabinet (ECC) decision in February, 1999.

The amount from KESC is receivable in 32 equal quarterly installments of Rs 46,687,500 commencing from February, 2004.

These receivables carry no interest and are repayable in 5 years with one year grace period. In accordance with International Accounting Standard (IAS) 39 an impairment loss has been recognized on the amount receivable from KESC, which is the difference between the carrying amount and present value of expected future cash flows, discounted at 7.5 % which is the imputed rate for interest calculation.

	2008 (Rupees '000)	2007
<b>17 STORES, SPARE PARTS AND LOOSE TOOLS</b>		
Stores, spare parts and loose tools	14,345,907	12,382,873
Stores and spare parts in transit	3,140,218	2,093,208
	<u>17,486,125</u>	<u>14,476,081</u>
Provision for slow moving and obsolete stores	(871,030)	(871,030)
	<u>16,615,095</u>	<u>13,605,051</u>
<b>18 TRADE DEBTS</b>		
Unsecured, considered good	40,706,744	28,018,145
Unsecured, considered doubtful	4,325,082	4,391,070
	<u>45,031,826</u>	<u>32,409,215</u>
Provision for doubtful debts	(4,325,082)	(4,391,070)
Trade debts written off	(1,445)	-
	<u>40,705,299</u>	<u>28,018,145</u>

**18.1** Trade debts include an amount of Rs 4,436 million (2007: Rs 4,354 million) withheld by Uch Power (Private) Limited (UPL) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to the proposal.

**18.2** Trade debts also include an amount of Rs 3,649 million (2007: Rs 5,379 million) which has been withheld by the refineries under the previous directive of Ministry of Petroleum and Natural Resources and represents revenue on Crude Oil in excess of USD 50 per barrel. On 04 December 2007, Ministry of Petroleum and Natural Resources issued another directive whereby discount on Crude Oil and Condensate in excess of USD 50 per barrel was settled. According to the said directive, in case the net prices exceed the present ceiling limits mentioned in the respective agreements, the excess will be equally shared between the Government and Exploration and Production (E&P) Companies both for Crude Oil and Condensate. The effect of this has been incorporated in these financial statements. Further, the matter has been taken up with oil refineries for release of withheld amounts.

**18.3** Also included in trade debts is an amount of Rs 3,954 million (2007: Rs 3,288 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>19 LOANS AND ADVANCES</b>			
Advances considered good:			
Suppliers and contractors		1,173,703	686,002
Joint venture partners		918,616	637,527
Others		21,385	26,692
		<u>2,113,704</u>	<u>1,350,221</u>
Current portion of long term loans - secured	16.1	225,333	190,468
		<u>2,339,037</u>	<u>1,540,689</u>
Advances considered doubtful		253,758	263,622
		<u>2,592,795</u>	<u>1,804,311</u>
Provision for doubtful advances		(253,758)	(263,622)
		<u>2,339,037</u>	<u>1,540,689</u>
<b>20 DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Security deposits		9,345	8,888
Short term prepayments		669,820	284,242
		<u>679,165</u>	<u>293,130</u>
<b>21 OTHER RECEIVABLES</b>			
Development surcharge		80,357	76,307
Current portion of long term receivables - unsecured	16.2	186,750	848,350
Claims receivable		16,420	19,209
Workers' profit participation fund	21.1	-	302,467
Others		355,394	88,922
		<u>638,921</u>	<u>1,335,255</u>
<b>21.1 Workers' profit participation fund</b>			
Receivable at beginning of the year		302,467	32,033
Paid to the fund during the year		4,200,000	3,515,034
		<u>4,502,467</u>	<u>3,547,067</u>
Received during the year		(289,883)	(30,983)
Charge for the year		(4,387,411)	(3,213,617)
(Payable)/receivable at end of the year	9	<u>(174,827)</u>	<u>302,467</u>
<b>22 OTHER FINANCIAL ASSETS</b>			
Investments:			
At fair value through profit or loss - NIT units		237,684	279,909
Available for sale	22.1	9,969,832	18,874,050
		<u>10,207,516</u>	<u>19,153,959</u>
<b>22.1</b>	These represent investments in TDRs maturing in the short term and carry interest rate of 5.00% to 10.70% (2007: 5.20% to 12.15%) per annum. Included in these investments are foreign currency TDRs amounting to USD 73 million (2007: USD 65 million).		

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>23 CASH AND BANK BALANCES</b>			
Cash at bank:			
Deposit accounts	23.1	7,567,517	4,677,795
Current accounts		721,586	156,000
		<b>8,289,103</b>	4,833,795
Cash in hand		17,445	28,206
Cash in transit		-	1,685
		<b>8,306,548</b>	4,863,686

**23.1** These deposit accounts carry interest rate of 1.30% to 9.50% (2007: 1.50% to 9.50%) per annum and include foreign currency deposits amounting to USD 27.097 million (2007: USD 14.710 million). Deposits amounting to Rs 444.844 million (2007: Rs 104.844 million) with banks were under lien to secure bank guarantees issued on behalf of the Parent Company.

	Note	2008 (Rupees '000)	2007
<b>24 SALES - net</b>			
<b>Gross sales</b>			
Crude oil		70,629,371	50,502,930
Gas		59,523,653	57,738,726
Gasoline		4,740	-
Kerosene oil		335,063	528,684
High speed diesel oil		246,587	439,509
Solvent oil		21,866	44,810
Naphtha		2,696,374	3,119,878
Liquefied petroleum gas		5,288,697	4,569,446
Sulphur		820,131	126,821
Other operating revenue	24.1	59,813	63,581
		<b>139,626,295</b>	117,134,385
<b>Government levies</b>			
Excise duty		(1,510,975)	(1,446,060)
Development surcharge		(60,626)	(51,138)
General sales tax		(12,146,390)	(14,904,176)
		<b>(13,717,991)</b>	(16,401,374)
		<b>125,908,304</b>	100,733,011
<b>24.1 Other operating revenue</b>			
Gas processing		26,553	29,925
Mud engineering services		33,260	33,656
		<b>59,813</b>	63,581



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>25 OPERATING EXPENSES</b>			
Salaries, wages and benefits	25.1	3,584,014	2,705,165
Traveling and transportation		363,729	315,714
Repairs and maintenance		907,583	870,245
Stores and supplies consumed		867,068	796,981
Rent, fee and taxes		397,599	304,900
Insurance		239,902	238,642
Communication		34,148	31,515
Utilities		44,200	26,163
Land and crops compensation		199,967	180,655
Contract services		710,267	816,942
Joint venture expenses		1,757,827	1,844,426
Desalting, decanting and naphtha storage charges		185,133	189,539
Charges related to minimum supply of gas - liquidated damages		85,866	1,054,049
Adjustment of discount on trade debts		252,953	1,478,302
Welfare of locals at fields		258,989	140,165
Workover charges		743,675	475,259
Depreciation	12.2	3,012,128	3,103,436
Amortization of development and production assets	13	4,961,145	3,800,988
Transfer from general and administration expenses	28	1,062,139	820,737
Miscellaneous		3,007	1,748
		<u>19,671,339</u>	<u>19,195,571</u>
Stock of crude oil and other products:			
Balance at beginning of the year		93,788	65,608
Balance at end of the year		(151,782)	(93,788)
		<u>19,613,345</u>	<u>19,167,391</u>
<b>25.1</b>	These include amount in respect of employee benefits of Rs 282.051 million (2007: Rs 162.974 million).		
<b>26 OTHER INCOME</b>			
<b>Income from financial assets</b>			
Interest income on:			
Investments and bank deposits		2,653,859	3,636,515
Long term receivables		54,789	134,517
Delayed payments from customers		70,851	24,263
		<u>2,779,499</u>	<u>3,795,295</u>
Dividend income from NIT units		28,150	26,333
Unrealized (loss)/gain on investments at fair value through profit or loss		(42,225)	60,386
Exchange gain/(loss)		735,021	(64,984)
		<u>3,500,445</u>	<u>3,817,030</u>
<b>Income from non financial assets</b>			
Gain on disposal of property, plant and equipment		114,615	32,959
Gain on disposal of inventory		11,753	52,647
Benevolent fund		(41,108)	-
Others		279,831	83,493
		<u>365,091</u>	<u>169,099</u>
		<u>3,865,536</u>	<u>3,986,129</u>
<b>27 EXPLORATION AND PROSPECTING EXPENDITURE</b>			
Cost of dry and abandoned wells	14	4,109,145	4,200,530
Prospecting expenditure		2,503,691	3,205,750
		<u>6,612,836</u>	<u>7,406,280</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>28 GENERAL AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits	28.1	1,478,060	1,133,382
Traveling and transportation		176,871	155,050
Repairs and maintenance		62,006	35,054
Stores and supplies consumed		69,203	119,236
Rent, fee and taxes		41,038	54,097
Communication		47,425	41,928
Utilities		38,564	41,201
Training and scholarships		11,396	20,911
Legal services		7,961	18,641
Contract services		74,116	74,906
Auditors' remuneration	28.2	9,654	9,459
Advertising		33,248	26,220
Joint venture expenses		444,859	394,117
Insurance		726	748
Donations	28.3	56,900	347,011
Aircraft expenses		4,382	6,352
Unallocated expenses of rigs		142,844	75,604
Depreciation	12.2	117,754	98,676
Trade debts written off		1,445	-
Fixed assets reconciliation adjustment		59,094	-
Miscellaneous		5,021	8,319
		<u>2,882,567</u>	<u>2,660,912</u>
Allocation of expenses to:			
Operations	25	(1,062,139)	(820,737)
Technical services		(571,788)	(550,528)
		<u>(1,633,927)</u>	<u>(1,371,265)</u>
		<u>1,248,640</u>	<u>1,289,647</u>

**28.1** These include amount in respect of employee benefits of Rs 117.850 million (2007: Rs 66.099 million).

## **28.2 Auditors' remuneration**

### **M/s KPMG Taseer Hadi & Co., Chartered Accountants**

	2008 (Rupees '000)	2007
Annual audit fee	1,100	1,100
Subsidiary annual audit fee	110	110
Half yearly review	300	300
Out of pocket expenses	189	189
Audit of consolidated financial statements	250	230
Concession audit fee	2,530	1,700
Quarterly review of consolidated financial statements	-	1,125
Verification of CDC record	50	50
Local retail offering of shares	-	325
Consultancy services	240	-
	<u>4,769</u>	<u>5,129</u>

### **M/s M. Yousuf Adil Saleem & Co., Chartered Accountants**

	2008	2007
Annual audit fee	1,100	1,100
Half yearly review	300	300
Out of pocket expenses	175	175
Audit of consolidated financial statements	250	230
Verification of CDC record	50	-
Concession audit fee	2,530	1,770
Certification of fee payable to OGRA	180	180
Dividend certification	300	250
Local retail offering of shares	-	325
	<u>4,885</u>	<u>4,330</u>
	<u>9,654</u>	<u>9,459</u>

**28.3** Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 29 PROVISION FOR IMPAIRMENT LOSS

As per policy of the Group, property, plant and equipment and development and production assets were tested for impairment at 30 June 2008 resulting in an impairment loss of Rs 319 million (2007: Rs 375 million) of its Subsidiary Company which has been charged to profit and loss account. The breakup of amount charged to various categories of assets is as follows:

Note	2008 (Rupees '000)	2007
Property, plant and equipment	-	91,918
Development and production assets	275,078	162,213
Decommissioning cost:		
Property, plant and equipment	-	10,004
Development and production assets	44,205	110,865
	44,205	120,869
	319,283	375,000

## 30 FINANCE COST

Unwinding of discount on provision for decommissioning cost	527,695	526,790
Bank charges	9,104	5,880
	536,799	532,670

## 31 TAXATION

Provision for taxation:		
Current	21,039,758	14,616,005
Prior years'	11,876,522	-
Deferred	1,053,013	883,718
	31.1 33,969,293	15,499,723

### 31.1 Reconciliation of tax charge for the year

Accounting profit	78,307,404	60,754,509
Tax rate	55.73%	52.68%
Tax on accounting profit at applicable rate	43,643,484	32,008,340
Tax effect of amounts that are inadmissible for tax purposes	15,503,322	9,591,618
Tax effect of amounts that are admissible for tax purposes	(13,471,789)	(9,286,561)
Tax effect of royalty allowed for tax purposes	(17,320,187)	(10,936,423)
Tax effect of depletion allowance for tax purposes	(10,015,623)	(8,018,868)
Tax effect of depletion allowance/decommissioning cost for prior years	11,876,522	-
Dividend chargeable to tax at reduced rate	1,767,790	14,197
Income chargeable to tax at corporate rates	932,761	1,262,974
Tax effect of business loss adjusted against royalty	-	(19,272)
Tax effect of timing differences	1,053,013	883,718
	33,969,293	15,499,723

### 31.2 Contingencies relating to tax

#### Parent Company

Various appeals in respect of assessment years 1992-93 to 2002-03, tax years 2003 to 2007 are pending at different appellate forums in the light of the order of the Commissioner of Income Tax (Appeals) [CIT(A)] and decision of the adjudicator appointed by both the Parent Company as well as the Federal Board of Revenue (FBR) mainly on the issues of decommissioning cost and depletion allowance.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## Subsidiary Company

### Assessment year 1995-96

The Subsidiary Company is in appeal before Lahore High Court, Rawalpindi Bench against an order of Income Tax Appellate Tribunal (ITAT) relating to assessment year 1995-96. By virtue of the said appellate order, the Subsidiary Company's taxability has been confirmed at the rate applicable to a private limited company resulting in a net tax exposure of Rs 178.20 million. The legal counsel of the Subsidiary Company is of the view that keeping in view assessed history of the Subsidiary Company the case is likely to be decided in Subsidiary Company's favour.

### Assessment year 2001-02

The tax authorities in framing re-assessment for assessment year 2001-02 have again calculated the depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company resulting in net tax exposure of Rs 66.212 million. An appeal before the Honourable ITAT has been filed against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

### Assessment year 2002-03

While framing assessment for the year 2002-03 the tax authorities disallowed decommissioning cost, provision for slow moving and obsolete items and recalculated depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company. The net tax effect of said adjustment is Rs 315.178 million, which has been adjusted against determined refunds of the Subsidiary Company. The Subsidiary Company as well as department filed appeal before Honourable ITAT against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

### Assessment year 1998-99, 2001-02 and 2002-03

In response to the application filed by the Subsidiary Company to FBR for resolution of the issue of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment year 1998-99, 2001-02 & 2002-03, an order on ADRC recommendation has been issued by the FBR thereby deciding not to intervene. The issues involved will be settled at appellate forums accordingly.

Pending the outcome of these appeals and ADRC order, no provision has been made in these accounts for the demand, since there is a reasonably fair chance that the appeal will be decided in favour of the Subsidiary Company.

### Tax years 2003 to 2007

For the tax years 2003 to 2006, the Additional Commissioner amended the deemed assessments u/s 120 thereby creating a demand of Rs 178.38 million after adjusting the refund of Rs 7.588 million for tax year 2005. While the amount was paid by the Subsidiary Company, appeals before CIT(A) were filed against the impugned orders. The CIT(A) while disposing off the appeals has rejected the Subsidiary Company's claim on the issue of depletion allowance while directed that decommissioning cost issue may be re-examined by the department and may be allowed on a fair and reliable estimate. The Subsidiary Company has decided to file appeal before ITAT against CIT(A) orders.

Further for tax year 2006, an order u/s 221 was issued by Taxation Officer rectifying the amount of determined refunds brought forward from the past years and raised a demand of Rs 161.579 million which has been paid by the Subsidiary Company. The Subsidiary Company has filed an appeal before CIT(A). CIT(A) while disposing off the appeal has directed that the issues may be re-examined by the department.

For tax year 2007, the Taxation Officer while initiating proceedings under section 221(2), rectified the assessment by re-trenching the claim of refund of Rs 481.904 million relating to tax year 2006 thereby creating a tax demand of Rs 146.424 million which has been paid by the Subsidiary Company. The Subsidiary Company has decided not to file appeal against the said order since an appeal against the order issued for tax year 2006 has already been filed. In case that appeal is decided in favour of the Subsidiary Company, a rectification application would be filed for order passed for tax year 2007.

The aggregate amount of above comes to Rs 1,509.556 million, out of which the Subsidiary Company has provided for Rs 326.323 million.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 32.1 Financial assets and liabilities

(Rupees '000)

(Rupees '000)												
Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2008	
	Maturity up to one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
Financial assets												
Long term investments	10.25% -18.00 %	2,678,315	5,239	-	-	-	2,683,554	-	-	-	2,683,554	
Long term loans and receivables	10.21%	45,247	40,860	34,774	31,263	27,852	122,829	302,825	180,087	1,066,480	1,246,567	1,549,392
Trade debts		-	-	-	-	-	-	-	40,705,299	-	40,705,299	40,705,299
Loans and advances		-	-	-	-	-	-	-	940,001	-	940,001	940,001
Security deposits		-	-	-	-	-	-	-	9,345	-	9,345	9,345
Other receivables		-	-	-	-	-	-	-	558,564	-	558,564	558,564
Interest accrued		-	-	-	-	-	-	-	180,295	-	180,295	180,295
Other financial assets	5.00 %-10.70 %	9,969,832	-	-	-	-	-	9,969,832	237,684	-	237,684	10,207,516
Cash and bank balances	1.30 %-9.50 %	7,567,517	-	-	-	-	-	7,567,517	739,031	-	739,031	8,306,548
		20,260,911	46,099	34,774	31,263	27,852	122,829	20,523,728	43,550,306	1,066,480	44,616,786	65,140,514
Financial liabilities												
Trade and other payables		-	-	-	-	-	-	-	9,272,720	-	9,272,720	9,272,720
		-	-	-	-	-	-	-	9,272,720	-	9,272,720	9,272,720
On balance sheet gap		20,260,911	46,099	34,774	31,263	27,852	122,829	20,523,728	34,277,586	1,066,480	35,344,066	55,867,794
Unrecognized												
Commitments (other than LCs)		-	-	-	-	-	-	-	18,909,109	-	18,909,109	18,909,109
Claims not acknowledged as debts		-	-	-	-	-	-	-	229,420	-	229,420	229,420
Letters of credit		-	-	-	-	-	-	-	6,504,968	-	6,504,968	6,504,968
Guarantees		-	-	-	-	-	-	-	444,844	-	444,844	444,844
		-	-	-	-	-	-	-	26,088,341	-	26,088,341	26,088,341
Off balance sheet gap		20,260,911	46,099	34,774	31,263	27,852	122,829	20,523,728	8,189,245	1,066,480	9,255,725	29,779,453

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

32.2 Financial assets and liabilities

(Rupees '000)											
Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2007
	Maturity up to one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
<b>Financial assets</b>											
Long term investments	10.8%-18%	2,255,354	199,084	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	999,811	1,460,059	2,724,407
Trade debts		-	-	-	-	-	-	28,018,145	-	28,018,145	28,018,145
Loans and advances		-	-	-	-	-	-	666,251	-	666,251	666,251
Security deposits		-	-	-	-	-	-	8,888	-	8,888	8,888
Other receivables		-	-	-	-	-	-	725,548	-	725,548	725,548
Interest accrued		-	-	-	-	-	-	318,444	-	318,444	318,444
Other financial assets	5.20%-12.15%	18,874,050	-	-	-	-	18,874,050	279,909	-	279,909	19,153,959
Cash and bank balances	1.50%-9.5%	4,677,795	-	-	-	-	4,677,795	185,891	-	185,891	4,863,686
		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>31,202,887</u>	<u>1,460,059</u>	<u>32,662,946</u>
<b>Financial liabilities</b>											
Trade and other payables		-	-	-	-	-	-	7,349,019	-	7,349,019	7,349,019
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,349,019</u>	<u>-</u>	<u>7,349,019</u>	<u>7,349,019</u>
<b>On balance sheet gap</b>		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>23,853,868</u>	<u>1,460,059</u>	<u>25,313,927</u>
<b>Unrecognized</b>											
Commitments (other than LCs)		-	-	-	-	-	-	12,256,639	-	12,256,639	12,256,639
Claims not acknowledged as debts		-	-	-	-	-	-	232,491	-	232,491	232,491
Letters of credit		-	-	-	-	-	-	4,318,176	-	4,318,176	4,318,176
Guarantees		-	-	-	-	-	-	104,844	-	104,844	104,844
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,912,150</u>	<u>-</u>	<u>16,912,150</u>	<u>16,912,150</u>
<b>Off balance sheet gap</b>		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>6,941,718</u>	<u>1,460,059</u>	<u>8,401,777</u>



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 32.3 Risk management

### a Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 65,140.514 million (2007: Rs 58,933.766 million), financial assets which are subject to credit risk amount to Rs 62,158.573 million (2007: Rs 57,208.240 million). To manage exposure to credit risk, the Group applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Group does not expect these companies to fail to meet their obligations.

### b Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. At the year end financial assets and liabilities include Rs 6,834.777 million (2007: Rs 4,848.664 million) and Rs 212.014 million (2007: Rs 147.260 million) respectively which are exposed to currency risk.

### c Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Group adopts a policy of ensuring minimize its interest rate risk by investing in fixed rate investments like DSCs and TDRs.

### d Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Group follows an effective cash management and planning policy to ensure availability of funds and to take measures for new requirements.

### e Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or/and issue new shares.

## 32.4 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values except for held to maturity investments which are stated at amortized cost.

	Note	2008 (Rupees '000)	2007
<b>33 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	<b>8,306,548</b>	4,863,686
Short term highly liquid investments	22.1	<b>9,969,832</b>	18,874,050
		<b>18,276,380</b>	23,737,736
<b>34 NUMBER OF EMPLOYEES</b>			
		<b>2008</b>	<b>2007</b>
Total number of employees at end of the year was as follows:		<b>Number</b>	
Regular		<b>10,539</b>	10,961
Contractual		<b>422</b>	374
		<b>10,961</b>	11,335

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 35 RELATED PARTIES TRANSACTIONS

Related parties comprise associated company, profit oriented state controlled entities, major shareholders, directors, companies with common directorship, key management personnel and employees pension trust. Transactions of the Group with related parties and balance outstanding at the year end are as follows:

	Note	2008 (Rupees '000)	2007
<b>Associated company</b>			
Dividend income received		23,931	23,520
<b>Related parties by virtue of common directorship and GoP holdings</b>			
<b>National Refinery Limited</b>			
Sale of crude oil		12,114,785	9,999,060
Sale of naphtha		2,692,063	3,119,878
Naphtha handling and storage charges		79,094	124,458
Receivable as at 30 June		4,900,153	4,712,900
<b>Pakistan Refinery Limited</b>			
Sale of crude oil		6,601,372	4,405,576
Receivable as at 30 June		2,883,206	2,098,667
<b>Government Holdings (Private) Limited</b>			
Payable as at 30 June		33,852	31,714
<b>Pak Arab Refinery Company Limited</b>			
Sale of crude oil		4,550,009	3,457,091
Receivable as at 30 June		1,291,614	1,203,717
<b>Sui Northern Gas Pipelines Limited</b>			
Sale of natural gas		33,259,820	32,548,992
Purchase of high BTU value gas		2,339,544	2,142,015
Receivable as at 30 June		4,781,929	5,066,022
<b>Sui Southern Gas Company Limited</b>			
Sale of natural gas		18,600,281	17,684,633
Pipeline rental charges		12,235	40,212
Receivable as at 30 June		7,364,325	6,105,115
<b>Pakistan State Oil Company Limited</b>			
Sale of refined petroleum products		382,398	643,676
Sale of liquefied petroleum gas		15,372	22,604
Purchase of petroleum, oil and lubricants		2,014,085	1,640,366
Receivable as at 30 June		8,651	87,117
<b>National Insurance Company Limited</b>			
Insurance premium paid		569,732	559,838
<b>National Logistic Corporation</b>			
Crude transportation charges paid		1,142,134	833,686
<b>Heavy Mechanical Complex</b>			
Purchase of stores and spares		13,568	72,561
<b>Water and Power Development Authority</b>			
Sale of natural gas		141,453	101,273
Receipts against long term loan		673,463	673,463
Receivable as at 30 June		31,322	31,652
<b>Enar Petrotech Services Limited</b>			
Consultancy services		39,332	31,098
Sale of crude oil		1,634,809	1,371,050
Receivable as at 30 June		173,592	128,564
<b>Pak Datacom Company Limited</b>			
V-Sat charges		2,056	1,265
<b>Government of Pakistan</b>			
Dividend paid		35,552,215	34,661,776
<b>Other related parties</b>			
Contribution to staff benefit funds		519,671	305,749
Remuneration including benefits and perquisites of chief executive	35.1	11,429	10,412
Remuneration including benefits and perquisites of executives	35.1	1,473,265	643,721

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Group to do so. Sale of Crude Oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of Natural Gas to related parties is at price notified by the GoP whereas, sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority (OGRA).

## 35.1 REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in these financial statements for the remuneration of the chief executive and executives was as follows:

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	7,080	559,668	6,915	232,002
Housing and utilities	1,200	396,897	1,437	149,765
Other allowances and benefits	3,090	397,540	2,027	244,959
Medical benefits	59	46,305	33	3,846
Contribution to pension fund	-	75,359	-	23,479
Leave encashment recovery	-	(2,504)	-	(10,330)
	<b>11,429</b>	<b>1,473,265</b>	<b>10,412</b>	<b>643,721</b>
Number of persons including those who worked part of the year	1	751	1	338

Executive means any employee whose basic salary exceeds Rs 500,000 (2007: Rs 500,000) per year.

The above were provided with medical facilities and are eligible for employee benefits for which contributions are made based on actuarial valuations. The chief executive and certain executives were provided with free use of cars.

The aggregate amount charged in these financial statements in respect of fee to 10 directors (2007: 9) was Rs 365,000 (2007: Rs 515,000).

## 36 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Control of Parent Company's plant at Uch field, due to purchase of total output by UPL an Independent Power Producer (IPP), appears to fall in the definition of leases in accordance with the requirements of IFRIC-4 "Determining whether an Arrangement contains a Lease". However, the management has not applied IFRIC-4 to its Uch plant as the impact of this is not considered to be material.

### 36.1 Initial application of a standard or an interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 32.3 to the financial statements.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 36.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments in approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Group's operations or are not expected to have significant impact on the Group's financial statements other than increase in disclosures in certain cases:

Revised IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 01 January 2009).

Revised IAS 23 - Borrowing Costs (effective from 01 January 2009).

IAS 29 - Financial Reporting in Hyperinflationary Economies (applicable for period beginning from 01 July 2008).

IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 01 January 2009).

IFRS 2 (amendment) - Share-based Payments (effective for annual periods beginning on or after 01 January 2009).

IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27 - Consolidated and Separate Financial Statements, IAS 28 - Investment in associates and IAS 31 - Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 July 2009).

IFRS 7 - Financial Instruments: Disclosures (applicable for periods beginnings from 01 July 2008).

IFRS 8 - Operating Segments (effective from 01 January 2009).

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 01 January 2008).

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008).

IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 01 January 2008).

IFRIC 15 - Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 01 January 2009).

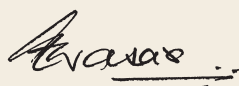
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (annual periods beginning on or after 01 October 2008).

## 37 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Parent Company proposed final dividend at the rate of Rs 3.50 per share in its meeting held on 20 August 2008.

## 38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 20 August 2008 by the Board of Directors of the Parent Company.



Chairman



Chief Executive

## Eleventh Annual General Meeting

For beneficial owners as per CDC List

Sub-Account No. \_\_\_\_\_

or Passport No. \_\_\_\_\_

or failing him / her \_\_\_\_\_ of

(Signature should agree with the specimen signature registered with the Company)

Signature of Shareholder \_\_\_\_\_

Signature of Proxy

## 1. WITNESS

Name: \_\_\_\_\_

CNIC No.					-								-	
----------	--	--	--	--	---	--	--	--	--	--	--	--	---	--

**Note:**

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

CNIC No.					-							-	
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or Passport No. \_\_\_\_\_

1. Proxies, in order to be effective, must be received at the Registered Office of the Company at OGDCL House, F-6/G-6, Jinnah Avenue, Islamabad not less than 48 hours before the meeting.
2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card (CNIC) or Passport with the proxy form before submission to the Company (Original CNIC / Passport is required to be produced at the time of the meeting).
3. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.





## Eleventh Annual General Meeting

Number of Shares held: \_\_\_\_\_

CNIC No. 

				-							-	
--	--	--	--	---	--	--	--	--	--	--	---	--

## Sub-Account No. \_\_\_\_\_

or Passport No. \_\_\_\_\_

1. The Signature of the shareholder must tally with specimen signature already on the record of the Company.
2. The Shareholders are requested to hand over the duly completed entry card at the counter before entering meeting premises.
3. This Entry Card is not transferable.







**Oil & Gas Development Company Limited**

OGDCL House, Jinnah Avenue,  
F-6/G-6, Islamabad - Pakistan.  
[www.ogdcl.com](http://www.ogdcl.com)