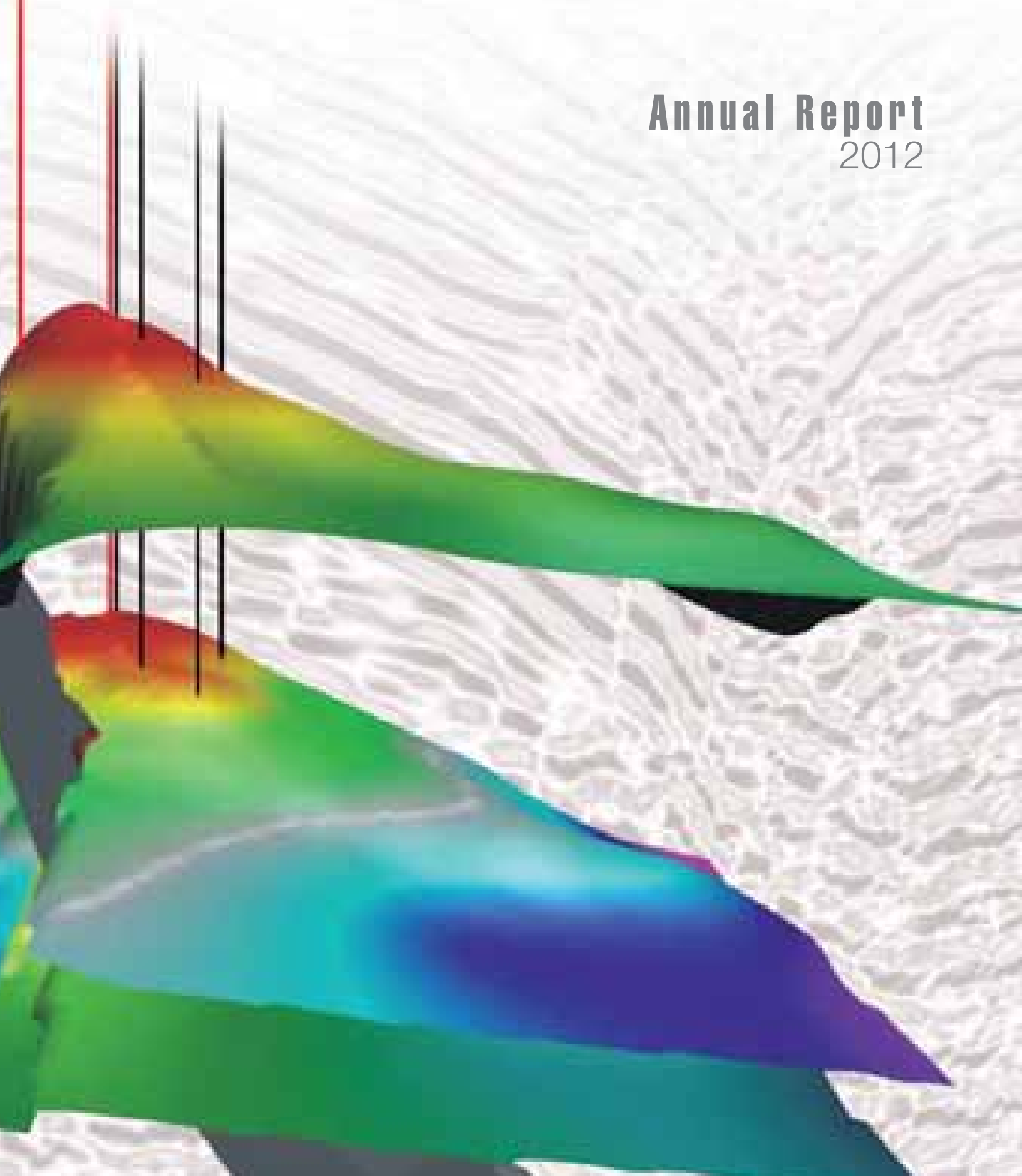




**Oil & Gas Development Company Limited**

# **Annual Report** 2012





The Company, on 20<sup>th</sup> September 2011, celebrated its

# Golden Jubilee

---

2011-12 was the year of jubilation and remembrance as Oil & Gas Development Company Limited (OGDCL) celebrated completion of fifty (50) years of a successful era of consistent and robust growth. The Company, during the past five decades, has come a long way from its modest beginnings to becoming the leading Exploration and Production (E&P) Company of Pakistan.

Title design

*Subsurface seismic imaging and interpretation; the driving force behind OGDCL's exploration and production activities.*

Former MD, General Haya-ud-Din and Mr. S. M. Yusuf, Secretary MP&MR at Toot-1 well spud-in



OGDCL Rig at Dhodak Field



Dehydration plant at Sari-Hundi Field



Equipment being delivered to a site in Chittagong



DEVELOPMENT  
GAS  
\$ 710

Remembering OGDCL's 50 Golden Years



Gas processing facilities at Nashpa field located in district Karak, Khyber Pakhtunkhwa (KPK).

OGDCL was established in 1961 as a public sector corporation which subsequently was converted from statutory corporation into a public limited joint stock company with effect from 23 October 1997.

In October 2003, Government of Pakistan (GoP) divested 4.98% of its shareholding in the Company through an Initial Public Offering (IPO) and OGDCL was listed on all three stock exchanges of Pakistan.

In December 2006, GoP further divested 9.5% of the total shares of the Company through Secondary Offering in the form of Global Depository Shares (GDSs), listed on London Stock Exchange (LSE), to international institutional investors thereby making OGDCL the first E&P Company of Pakistan to be

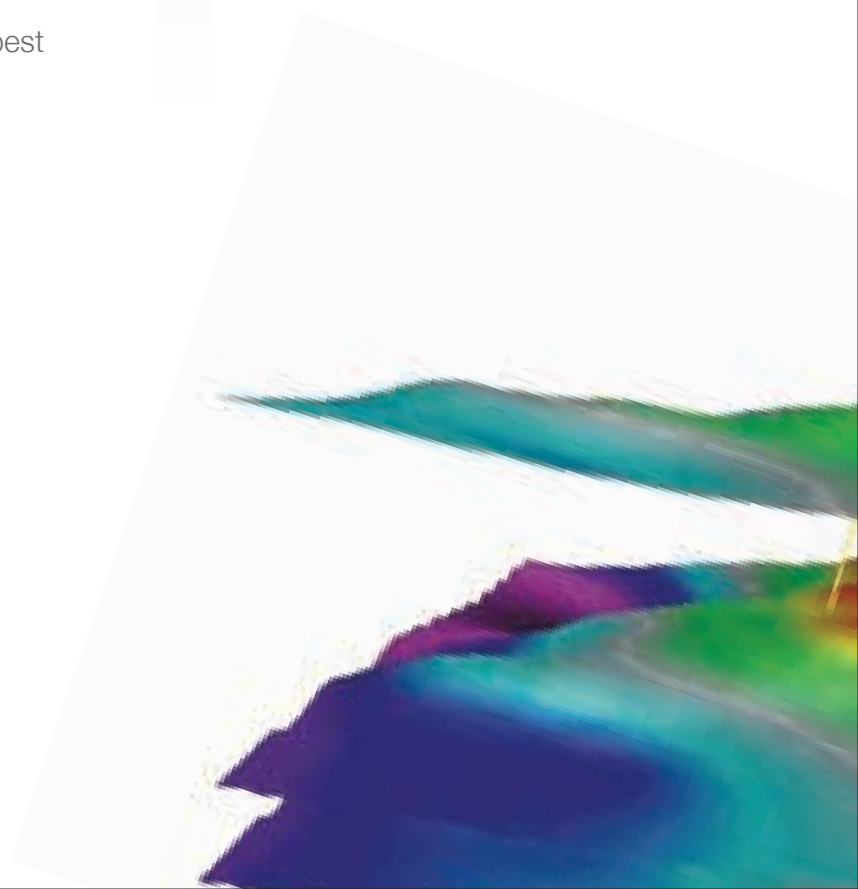
listed on LSE. In addition, GoP also divested 0.50% of the total shares to local institutional investors in February 2007. Furthermore, on 14 August 2009, GoP launched Benazir Employees Stock Option Scheme (BESOS) whereby 12% of the shares held by GoP were transferred to OGDCL Employees Empowerment Trust (OEET). Accordingly, GoP now owns 74.97% of the total outstanding shares of the Company as at 30 June 2012.

OGDCL holds the largest portfolio of recoverable hydrocarbon reserves in Pakistan, at 48% of oil and 31% of natural gas as at 31 December 2011. During the fiscal year 2011-12, the Company contributed 58% of Pakistan's total oil production and 27% of its total natural gas production.



# Contents

06	Highlights of the Year	61	Statement of Compliance with the best practices of the Code of Corporate Governance
08	Notice of Annual General Meeting	64	Auditors' Report to the Members
10	Vision, Mission, Core Values & Goals	66	Balance Sheet
14	Code of Conduct	68	Profit and Loss Account
17	Corporate Information	69	Statement of Comprehensive Income
18	Board of Directors	70	Cash Flow Statement
22	Committees of the Board	71	Statement of Changes in Equity
24	Core Management Team	72	Notes to the Financial Statements
26	Exploration Licenses	127	Organogram
28	Development & Production / Mining Leases	128	Abbreviations
30	Six Years Performance		Form of Proxy
32	Vertical and Horizontal Analysis		Entry Card
33	Statement of Value Addition		
36	Managing Director's Review		
38	Directors' Report		
58	Pattern of Shareholding		
59	Categories of Shareholders		
60	Review Report to the Members on Statement of Compliance with the best practices of the Code of Corporate Governance		





## EXPLORATION STRATEGY

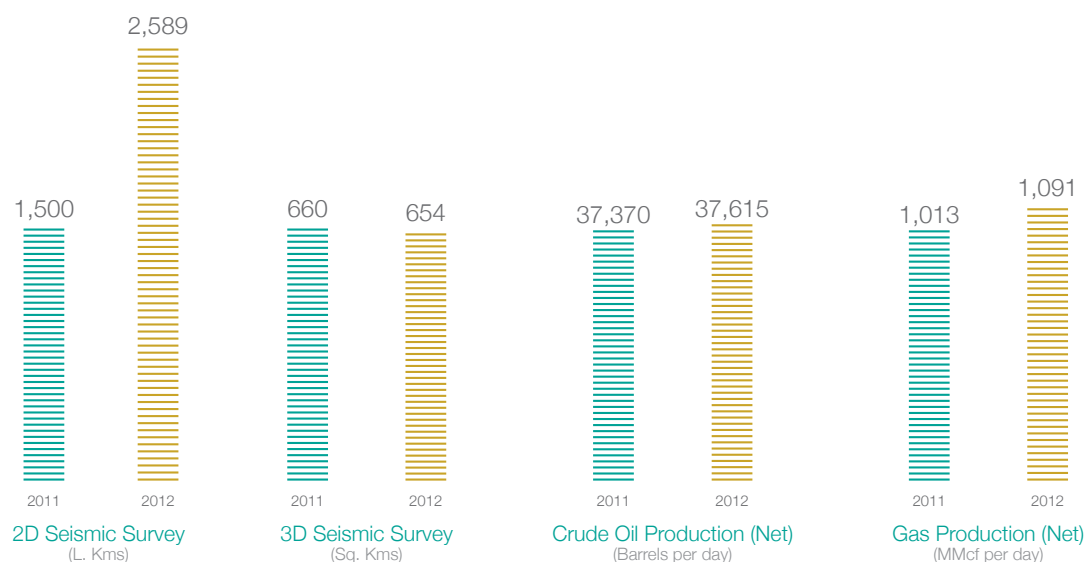
- Maintain balanced portfolio of exploration blocks in order to hedge risk
- Accelerate exploration activities in offshore
- Extend exploratory efforts to unexplored and frontier areas
- Explore old areas with new ideas and innovations
- Maintain acceptable success ratio for reserves addition



# Highlights of the Year

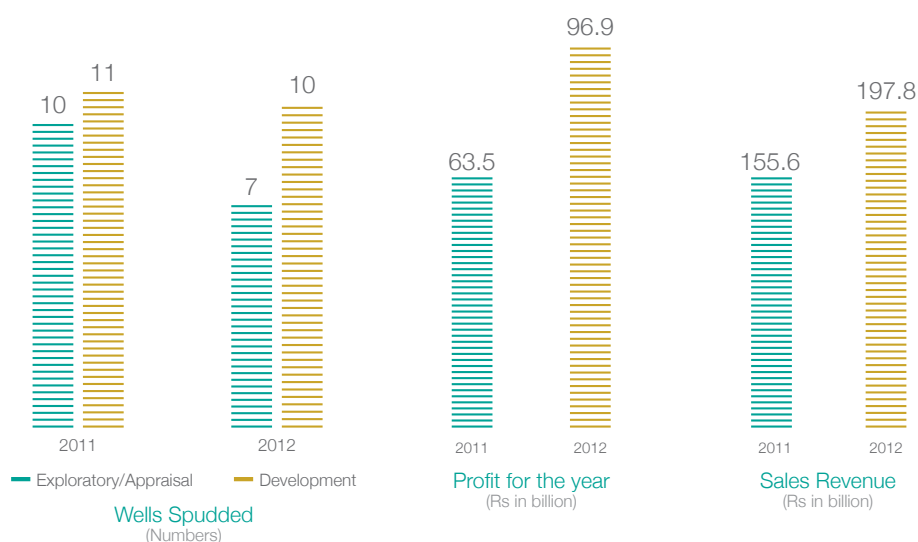
## Operational Highlights

- Two (2) oil/condensate and gas discoveries namely Nashpa-2 and Zin X-1 were made by the Company
- Crude oil production on working interest basis averaged 37,615 barrels per day (bpd)
- Gas production on working interest basis averaged 1,091 MMcf per day (MMcfd)
- LPG production on working interest basis averaged 205 M. Tons per day
- Seismic data acquisition of 2,589 L. Kms of 2-D and 654 Sq. Kms of 3-D
- Seventeen (17) new wells, including seven (7) exploratory / appraisal and ten (10) development, were spudded
- Commencement of production:
  - Nashpa-2: daily production of around 6,000 barrels of crude oil and 21 MMcf of gas
  - Kunnar Pasahki Deep-Tando Allah Yar (KPD-TAY) Phase-I: daily production of 110 MMcf of gas, 1,500 barrels of condensate and 140 M. Tons of LPG



## Financial Highlights

- Sales revenue increased by 27.1% to Rs 197.8 billion (2010-11: Rs 155.6 billion)
- Net realized prices of crude oil and gas averaged US\$ 84.91/bbl and Rs 228.56/Mcf respectively (2010-11: US\$ 72.05/bbl and Rs 214.03/Mcf)
- Profit before taxation rose by 46.3% and profit for the year increased by 52.5% to Rs 133.1 billion and Rs 96.9 billion respectively (2010-11: Rs 91.0 billion and 63.5 billion)
- Earnings per share (EPS) increased to Rs 22.53 (2010-11: Rs 14.77)
- Total dividend declared at the rate of Rs 7.25 per share (2010-11: Rs 5.50 per share)
- Total assets increased to Rs 338.3 billion from Rs 261.8 billion
- Contribution to national exchequer amounting to Rs 100.6 billion (2010-11: Rs 76.8 billion)



# Notice of Annual General Meeting

Notice is hereby given that the 15<sup>th</sup> Annual General Meeting being 25<sup>th</sup> meeting of the members of Oil and Gas Development Company Limited will Insha-Allah be held at the registered office of the Company, OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Jinnah Avenue, Islamabad on Thursday, 04 October 2012 at 10.00 a.m. to transact the following business:

## ORDINARY BUSINESS

- 1) To confirm the minutes of the 14<sup>th</sup> Annual General Meeting held on 28 September 2011.
- 2) To receive, consider and adopt the audited accounts of the Company for the year ended 30 June 2012 together with the Directors' and Auditors' Reports thereon.
- 3) To approve the final cash dividend @ 27.5% i.e. Rs 2.75 per share for the year ended 30 June 2012 as recommended by the Board of Directors. This is in addition to three interim cash dividends totaling to 45% i.e. Rs 4.50 per share already paid during the year.
- 4) To appoint Auditors for the year 2012-13 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

(Ahmed Hayat Lak)  
Company Secretary

09 August 2012  
Islamabad

## 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 26 January 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 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 for 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 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 Thursday, 27 September 2012 to Thursday, 04 October 2012 (both days inclusive). Transfers received in order at the Share Registrars office by the close of business on Wednesday, 26 September 2012 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 address.

## Vision

To be a leading multinational Exploration and Production company



## Mission

To become the leading provider of oil and gas to the country by increasing exploration and production both domestically and internationally, utilizing all options including strategic alliances;

To continuously realign ourselves to meet the expectations of our stakeholders through best management practices, the use of latest technology, and innovation for sustainable growth, while being socially responsible.



## Core Values

Merit

Teamwork

Dedication

Integrity

Safety

Innovation



## Goals

### Financial

- Build strategic reserves for future growth/expansion
- Growth and superior returns to all stakeholders
- Double the value of the Company in the next five years
- Make investment decisions by ranking projects on the basis of best economic indicators
- Maximize profit by investing surplus funds in profitable avenues
- Reduce cost and time overruns to improve performance results

### Learning and Growth

- Motivate our workforce, and enhance their technical, managerial and business skills through modern HR practices
- Acquire, learn and apply state-of-the-art technology

- Emphasize organizational learning and research through effective use of knowledge management systems
- Fill the competency gap within the organization by attracting and retaining best professionals
- Attain full autonomy in financial and decision making matters

### Customer

- Continuously improve quality of service and responsiveness to maintain a satisfied customer base
- Improve reliability and efficiency of supply to the customer
- Be a responsible corporate citizen

### Internal Process

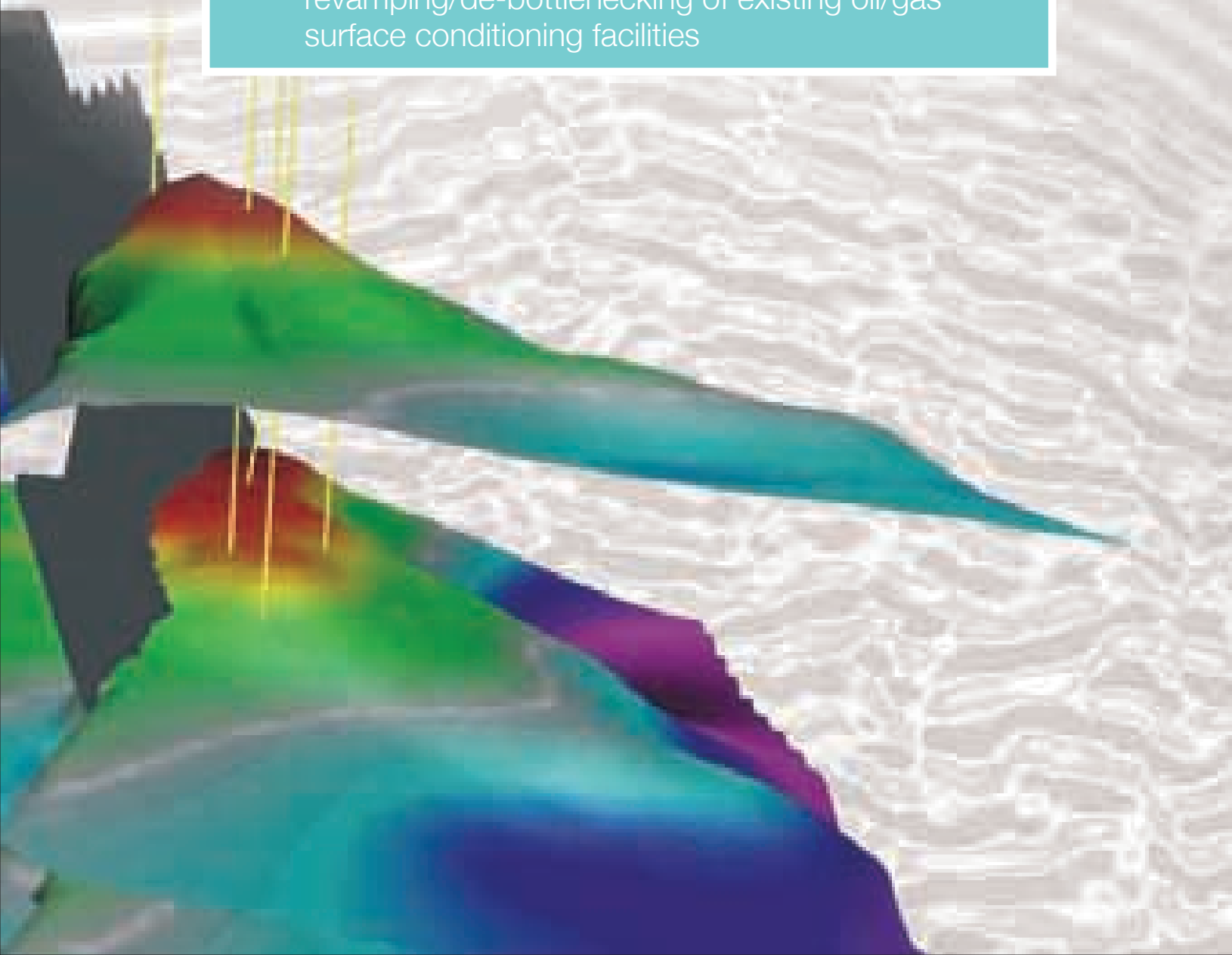
- Evolve consensus through consultative process interlinking activities of all departments

- Excel in exploration, development and commercialization
- Be transparent in all business transactions
- Synergize through effective business practices and teamwork
- Have well-defined SOPs with specific ownerships and accountabilities
- Improve internal controls
- Improve internal business decision making and strategic planning through state-of-the-art MIS
- Periodic business process reengineering



## PRODUCTION STRATEGY

- Early and expeditious production from discovered oil/gas fields
- Make efforts to maintain and enhance production from existing fields through workovers
- Employing latest technology & different Secondary Recovery techniques i.e. IOR/EOR up-gradation/revamping/de-bottlenecking of existing oil/gas surface conditioning facilities





# Code of Conduct

## 1. OBJECTIVE

To ensure that Oil & Gas Development Company Limited ("the Company") conducts and is seen to conduct its operations in accordance with highest business ethical consideration complying with all statutory regulations and universally accepted standards of a good corporate citizen. The Company's core values are Merit, Integrity, Teamwork, Safety, Dedication and Innovation. It is towards this end of fostering the core values in the Corporate culture of the Company that the Company has adopted this Code of Conduct ("the Code").

## 2. APPLICATION

In compliance with the requirements of Clause No. v (a) of the Code of Corporate Governance, this Code applies to all directors and employees of the Company.

## 3. IMPLEMENTATION

The Code implies as follows:

### Use of Company's assets / record keeping

3.1 The directors and employees of the Company seek to protect the Company's assets and to ensure that 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.

3.2 The Company must make and keep books and records that accurately and fairly reflect the Company's transactions and the disposition of its assets in accordance with Generally Accepted Accounting Principles (GAAP) and applicable laws & regulations.

3.3 Any accounting adjustments that materially depart from GAAP must be reported to the Audit Committee of the Board, Board of Directors and the Company's statutory auditors. In addition, any off-balance-sheet transactions, arrangements and obligations, contingent or otherwise, and other relationships of the Company with unconsolidated entities or other persons that may have material current or future effects on the financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components or revenues or expenses must also be disclosed to the Audit Committee of the Board, Board of Directors and the Company's statutory auditors.

### Legal Compliance & Conflict of Interest

3.4 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, real or perceived including potential conflicts must be notified to the Company in writing immediately. (A conflict of interest may arise when a director or an employee is in a position to influence a decision or situation that may result in personal gain for such employee or the employee's family or friends at the expense of the Company or its customers).

3.5 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.

3.6 The Company respects the interests of all the stakeholders and enters into transparent and fairly negotiated contracts. It will do business with customers and suppliers of sound business character and reputation only. All business dealings by the Company with third parties shall be on an arm's length and on a commercial basis.

### Corruption

3.7 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. No employee of the Company shall accept any funds, loans, favours or other assets (including those provided as preferential treatment) to obtain business from the Company or that might tend to influence an employee's business decisions. Acceptance of any gift will be subject to Company's Policy.



- 3.8 In the course of their normal business duties, employees may be offered entertainment such as lunch, dinner, theatre, a sporting event and the like. Accepting these offers is appropriate if those are reasonable and occur in the course of a meeting or on an occasion the purpose of which is to hold bona fide business discussions or to foster better business relations. Employees should not accept tickets or invitations to entertainment when the prospective host will not be present at the event with the employee.
- 3.9 Employees may offer tips or hospitality of a customary amount or value for routine services or exchange of customary reciprocal courtesies to promote general business goodwill provided it does not influence business decisions or dealings of the Company.

#### Confidentiality

- 3.10 The Company 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.
- 3.11 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.

#### General

- 3.12 The Company is an equal opportunity employer and does not discriminate on the basis of sex, colour, religion or creed.
- 3.13 Employees may offer tips, gratuity or hospitality of a customary amount or value for routine services or courtesies received as per Company policy.
- 3.14 If an employee becomes aware that another employee has violated this Code, he or she is obligated to report that violation to the Company.

#### 4. RESPONSIBILITY FOR ENFORCEMENT / INTERPRETATION

- 4.1 All directors and employees of the Company and its subsidiary/subsidiaries are responsible for the continuing enforcement and compliance of this Code. If any employee has any question about any part of this Code, he or she should direct such question to his or her immediate supervisor or to the Executive Director (Human Resources) or to the Company Secretary. Non-compliance with this Code will result in disciplinary action as per rules of the Company.
- 4.2 Good faith reports of the violations will be promptly and thoroughly investigated. All employees must cooperate in the investigation of reported violations.
- 4.3 The Investigating Officer will not, to the extent practical and appropriate under the circumstances, disclose the identity of anyone who reports a suspected violation or who participates in the investigation.
- 4.4 The Company does not permit retaliation against an employee who in good faith seeks advice or reports misconduct. Retaliation in any form against an individual who in good faith reports a violation of this Code or the law, even if the report is mistaken, or who assists in the investigation of a reported violation, is itself a serious violation of this Code. Anyone who engages in retaliation will be subject to disciplinary action, including termination from the service of the Company.



OGDCL, as a leading Exploration & Production Company of Pakistan, is making all out efforts to enhance its reserves and production profile leading to long term value creation, substantial returns to its shareholders and for the growth of economy as a whole.

## Corporate Information

### Board of Directors

Ch. Muhammad Shafi Arshad	Chairman
Mr. Masood Siddiqui	MD & CEO
Senator Mir Wali Muhammad Badini	Director
Mr. Babar Yaqoob Fateh Muhammad	Director
Mr. Abid Saeed	Director
Syed Masieeh-ul-Islam	Director
Mr. Fahd Shaikh	Director
Mr. Mohomed Bashir	Director
Mr. Iskander Mohammed Khan	Director
Mr. Mohamed Anver Ali Rajpar	Director
Mr. Sheraz Hashmi	Director
Mr. Raza Ullah Khan	Director

### Chief Financial Officer

Mr. Muhammad Rafi

### Company Secretary

Mr. Ahmed Hayat Lak

### 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 A. F. Ferguson & Co., Chartered Accountants

### Bankers

Allied Bank Limited  
Askari Bank Limited  
Bank Alfalah Limited  
Bank AL Habib Limited  
Barclays Bank PLC, Pakistan  
Citibank, Pakistan  
Deutsche Bank, Pakistan  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
HSBC Bank Middle East Limited, Pakistan  
MCB Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank (Pakistan) Limited  
United Bank Limited

### Registered Office

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

### Registrar Office

Noble Computer Services (Pvt.) Limited,  
First Floor,  
House of Habib Building (Siddiqsons Tower),  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal, Karachi-75350  
Phone: +92 21 34325482-87  
Fax: +92 21 34325442  
Website: [www.noble-computers.com](http://www.noble-computers.com)  
Email: [ncsl@noble-computers.com](mailto:ncsl@noble-computers.com)



## Board of Directors



Ch. Muhammad Shafi Arshad  
Chairman

### Ch. Muhammad Shafi Arshad

Ch. Muhammad Shafi Arshad, Chairman OGDCL, is a banker by profession. He graduated from Govt. College Lahore. He is also Fellow of Institute of Bankers in Pakistan.

He has varied experience in the financial sector of both public and private sector corporate bodies spread over a period of 39 years.

He started his career in Habib Bank Ltd. in 1960. He held all important assignments like Circle Executive, General Manager (U.K/Europe) based in London, Member Executive Board of the bank and after successfully discharging various responsibilities on global basis, he became President and Chief Executive of Habib Bank Ltd. (The largest Commercial Bank of Pakistan) in 1993.

He was appointed as President and Chief Executive of United Bank Ltd. in 1996 by the State Bank of Pakistan (Central Bank) to undertake its structural reforms and improve functioning before its privatization.



Mr. Masood Siddiqui  
MD & CEO

He was sent on deputation as Chairman and Chief Executive of the The Bank of Punjab, Lahore by the State Bank of Pakistan in 1997.

He is a pioneer Director on the Board of Punjab Municipal Development Fund Company (PMDFC), an independent entity and a vibrant civil society organization established in 1998, under the Companies Ordinance 1984, with the Technical and Financial Assistance of the World Bank. He remained on its Board from 1998 to 2009. He has now been re-elected in May 2012 for another tenure of three years.

He has extensively traveled abroad in connection with his official assignments.

### Mr. Masood Siddiqui

Mr. Masood Siddiqui has vast experience of over 25 years in the field of oil and gas exploration and production sector of Pakistan. He started his career with M/s Halliburton Services and worked at Islamabad and Karachi as well as Duncan Oklahoma base camp, USA. He spent 11 years working in various capacities in the hierarchy of BP Pakistan (formerly Union



Senator Mir Wali Muhammad Badini  
Director

Texas Pakistan Inc.). Thereafter, he joined Lasmo Oil Pakistan Ltd (now ENI) which further enriched his experience. He also worked with Premier-KUFPEC (PKP) Pakistan B.V as Principal Officer KUFPEC Pak B.V. and as Director Kadanwari 2, a company of PKP incorporated in Japan and CEO of PKP. Mr. Siddiqui resigned from the company in 2006 and became engaged with his private endeavor Maymar Housing Services (Pvt.) Limited.

Mr. Siddiqui qualified as BS in Petroleum Engineering from University of Oklahoma, Norman USA in 1985. He has also acquired professional training in wide variety of disciplines from foreign and local institutions in the field of professional management, petroleum economics, law, material management and many others. Mr. Siddiqui remained the Vice Chairman of Pakistan Petroleum Exploration & Production Companies Association (PPEPCA) 2004-2005. He is a member of Society of Petroleum Engineers (SPE) & Pakistan Association of Petroleum Geologists (PAPG), Pakistan Engineering Council (PEC), Petroleum Institute of Pakistan (PIP).





Mr. Babar Yaqoob Fateh Muhammad  
Director

#### Senator Mir Wali Muhammad Badini

Mir Wali Muhammad is a Senator and Chairman Senate Standing Committee on Communication. He is also Member Standing Committee on Cabinet Secretariat, Inter-Provincial Coordination and Special Initiatives, and Member Standing Committee on States and Frontier and Member Functional Committee on problems of Less Developed Areas.

#### Mr. Babar Yaqoob Fateh Muhammad

Mr. Babar Yaqoob Fateh Muhammad is presently serving Government of Balochistan as Chief Secretary. He has rich experience at his credit and has served on various civil service positions at Federal and provincial levels. He holds M.A. English degree from Punjab University, Lahore and M.A. (Dev Adm) from Birmingham University UK. He also obtained professional training from Kennedy School, Harvard University, USA and has attended courses from National Management College and National Institute of Public Administration (NIPA). He is also Director on the Board of Sui Southern Gas Company Limited.



Mr. Abid Saeed  
Director

#### Mr. Abid Saeed

Mr. Abid Saeed, Additional Secretary, Ministry of Petroleum and Natural Resources, is a career civil servant. After doing his Masters in Economics from Government College, Lahore, he joined the Civil Service of Pakistan. He also holds M.A. (Administrative Sciences) degree from George Washington University, USA.

Mr. Saeed has vast experience of Public Administration. He served as Assistant Commissioner, Khairpur, Jacobabad and Moro, Government of Sindh and as Deputy Commissioner Bhakhar, Lodhran, Kasur and Faisalabad Districts. He served in various capacities in the Government of Punjab i.e. Secretary, Punjab Literacy & Non-Formal Basic Education Department, Forestry, Wildlife, Fisheries and Tourism Department, Special Secretary, Local Government and Rural Department, Chief Executive Officer, Punjab Rural Support Programme etc. He was transferred as Additional Secretary Ministry of Food and Agriculture and subsequently posted in the Ministry of Petroleum & Natural Resources.



Syed Masieh-ul-Islam  
Director

#### Syed Masieh-ul-Islam

Syed Masieh-ul-Islam has been educated at Cadet College, Hassan Abdal; Government College, Lahore; Punjab University, Lahore; and Northwestern School of Law of Lewis & Clarks College, Portland (OR), USA. He holds Masters (Honors) Degree in Mathematics, LLB Degree and postgraduate Certificate in Environmental & Water Laws. He has worked in Sui Northern Gas Pipelines Limited (SNGPL) in various capacities. He has also worked with Public Procurement Regulatory Authority (PPRA) as Consultant. He has attended various management programs in the country and abroad including those conducted by the Universities of Colorado and Michigan, USA. He has been a member of the American Management Association (AMA) and has extensively traveled overseas in connection with official work missions.

#### Mr. Fahd Shaikh

Mr. Fahd Shaikh, Director OGDCL Board is Director of National Institute of Facilitation Technologies (NIFT) which is a joint venture between six banks and the private sector.



**Mr. Fahd Shaikh**  
Director

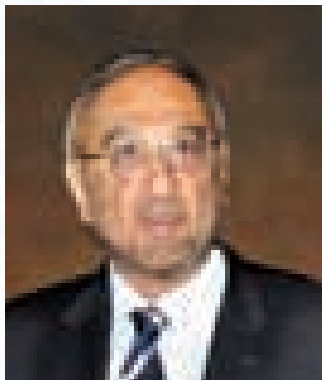
It is responsible for the establishment and management of automated clearing house facilities all over Pakistan. NIFT is pro-actively involved in the modernization of payment systems in Pakistan. Mr. Fahd is also partner of Vision Security established in 2009, a company specializing in security, defence and forensics and has distribution agreements for Pakistan with leading international companies. Mr. Fahd has also vast experience in working for multi national banks and equity brokerage firms in Pakistan and holds a Bachelor degree in Institutional Management from Johnson and Wales University, Providence, RI, USA.

#### **Mr. Mohamed Bashir**

Mr. Mohamed Bashir is the Chairman and Chief Executive of Gul Ahmed Textile Mills Ltd. He has been awarded Sitara-e-Imtiaz in 2005.

Mr. Bashir is Fellow Member of the Chartered Institute of Management Accountants (UK).

Mr. Bashir is Member, Revenue Advisory Council, Government of Pakistan, Member Advisory Committee, Federal Tax Ombudsman Government of Pakistan, Member, Economic



**Mr. Mohamed Bashir**  
Director

Advisory Council, Government of Pakistan, President, International Textile Manufacturers Federation (ITMF), Founder Trustee, Fellowship Fund for Pakistan, Member, Advisory Board of Citizens-Police Liaison Committee (CPLC), Government of Sindh, Founder Director, Pakistan Business Council. He has been Member, Export Promotion Board, Government of Pakistan, Member, National Strategy on Textiles, Chairman, Pakistan Britain Advisory Council, Chairman, All Pakistan Textile Mills Association, Chairman, Pakistan Swiss Trade and Industry Committee and Governing Board, Pakistan Design Institute.

He is also Director on the Boards of Gul Ahmed Energy Limited, Habib Metropolitan Bank Limited, Gul Ahmed Wind Power Limited, GTM (Europe) Limited - UK, Gul Ahmed International Limited (FZC) - UAE, Gul Ahmed Holdings (Private) Limited, Safe Mix Concrete Products Limited and Director Board of Habib University Foundation.

#### **Mr. Iskander Mohammed Khan**

Mr. Iskander Mohammed Khan is a Law Graduate and Chartered Accountant. He is a businessman



**Mr. Iskander Mohammed Khan**  
Director

and Director of Premier Group of Companies including Premier Sugar Mills & Distillery Company Limited, Frontier Sugar Mills & Distillery Limited, Chashma Sugar Mills Limited, Arpak International Investments Limited and other non listed subsidiaries of the Group.

He remained Chairman, All Pakistan Sugar Mills Association for the year 2000-2004, Chairman, Pakistan Polypropylene Woven Sack Manufacturers Association, Chairman, All Pakistan Sugar Mills Association, Khyber Pakhtunkhwa for the year 2005-2006, Director of Islamabad Stock Exchange for year 2005 and Member, Managing Committee, Federation of Pakistan Chambers of Commerce and Industry for the year 2005-2006.

#### **Mr. Mohamed Anver Ali Rajpar**

Mr. Mohamed Anver Ali Rajpar belongs to Ports and Shipping sector and is the Managing Director of General Shipping Agencies (Pvt) Limited since 1992. He completed his Master of Philosophy (Economics & Politics) from Cambridge University, U.K. in 1992 and Bachelor of Science (Business Administration) from Bucknell University, Pennsylvania, USA in 1989.



**Mr. Mohamed Anver Ali Rajpar**  
Director

He is Trustee of Karachi Port Trust; Board Member of Port Qasim Authority and Board Member of Karachi Dock Labour Board. He remained Chairman of Pakistan Ship's Agents Association for several terms and is currently an Executive Committee Member. He is also the Advisor of Karachi Chamber of Commerce & Industry (KCCI) Diplomatic Affairs Sub-Committee and Vice President of Pakistan Belgium Business Forum.

He is the President of The Oxford and Cambridge Society, Karachi; Chairman of British Overseas School, Karachi and Board Member of Al-Murtaza School, Karachi. Due to his excellent relations in the Shipping and Logistics community he worked closely with concerned Government entities, NGOs, etc. in arranging carriage of relief consignments free of sea freight and arranged empty containers to set-up relief camps during the 2005 earthquake and 2010/2011 floods.

#### **Mr. Sheraz Hashmi**

Mr. Sheraz Hashmi is a graduate of University of Buckingham, UK from where he received his LLB (Hons).



**Mr. Sheraz Hashmi**  
Director

He is currently a Partner at Syed Sharif Uddin Pirzada and Company, a premier Pakistani law firm and has a keen interest in the reforms of the corporate regulatory environment of Pakistan.

Mr. Hashmi has also worked on various high-profile consultancy assignments on big-ticket transactions including acting as a Consultant to the Attorney General of Pakistan.

Mr. Sheraz Hashmi has the privilege to serve as the member of the Board of Directors of National Volunteer Movement, an initiative launched to respond to the massive relief and reconstruction effort in quake-devastated areas of Pakistan. He was the only member from the civil sector and in this capacity; he contributed towards shaping the policies that led to the success of numerous initiatives of the organization.

#### **Mr. Raza Ullah Khan**

Mr. Raza Ullah Khan is the Chief Executive Shalozan Marbles (Pvt) Limited since 1991 and Chief



**Mr. Raza Ullah Khan**  
Director

Executive Shalozan Mine & Minerals Processing Company. He is also a Member of Khyber Pakhtunkhwa Chamber of Commerce & Industries, Peshawar. He remained District Naib Nazim City District Government of Peshawar from 2005 to 2009 and Nazim Union Council Chaghar Matti Peshawar from 2001 to 2005. He holds Bachelor of Arts degree.

# Committees of the Board

## Human Resource and Remuneration Committee

1. Syed Masieh-ul-Islam	Chairman
2. Mr. Masood Siddiqui	Member
3. Senator Mir Wali Muhammad Badini	Member
4. Mr. Abid Saeed	Member
5. Mr. Mohamed Anver Ali Rajpar	Member
6. Mr. Raza Ullah Khan	Member
Executive Director (HR)	Secretary

### Terms of Reference

- Recommendations for appointment / promotions beyond EG-VIII,
- 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.

## Operations & Finance Committee

1. Mr. Iskander Mohammed Khan	Chairman
2. Mr. Masood Siddiqui	Member
3. Mr. Babar Yaqoob Fateh Muhammad	Member
4. Mr. Abid Saeed	Member
5. Syed Masieh-ul-Islam	Member
6. Mr. Fahd Shaikh	Member
7. Mr. Mohamed Bashir	Member
8. Mr. Mohamed Anver Ali Rajpar	Member
9. Mr. Sheraz Hashmi	Member
A/Executive Director (Finance)/CFO	Secretary

### Terms of Reference

- Approval of Exploration Licenses and related work programmes within budgetary provision,
- Recommendations for Farm-in and Farm-out in Concessions,
- Recommendations for participation in offshore and overseas opportunities,
- Recommend / review the physical targets,

- Formulation of Technical Policies required under the Code of Corporate Governance, and to recommend and review:
  - Financial targets,
  - Annual and quarterly budgets,
  - Analysis of variances with the budget,
  - Procurement of plant machinery and store items etc. exceeding the powers delegated to MD,
  - Award of contracts for civil works, development of fields, etc. exceeding the powers delegated to MD,
  - Investment of surplus funds of the Company,
  - Request for borrowing of money; and
  - Financial policies and controls including the policies required under the Code of Corporate Governance,
- Consider any other issue or matter as may be assigned by the Board of Directors.

## Audit Committee

1. Mr. Fahd Shaikh	Chairman
2. Senator Mir Wali Muhammad Badini	Member
3. Mr. Abid Saeed	Member
4. Syed Masieh-ul-Islam	Member
5. Mr. Iskander Mohammed Khan	Member
6. Mr. Raza Ullah Khan	Member
A/General Manager (Internal Audit)	Secretary

### Terms of Reference

- Recommend appointment of external auditors to the Board of Directors and consider any questions of resignation or removal of external auditors, audit fees, etc.,
- Recommend appointment of financial consultant for any service to the Company in addition to audit of its financial statements,
- Recommend appointment of suitable candidate(s) for the position of Head of Internal Audit,
- Determine appropriate measures to safeguard the Company's assets,
- Review preliminary announcements of financial results prior to publication,

- Review quarterly, half-yearly and annual financial statements of the Company prior to their approval by the Board of Directors, focusing on:
  - major judgmental areas,
  - significant adjustments resulting from the audit,
  - the going concern assumption,
  - any changes in accounting policies and practices,
  - compliance with applicable accounting standards; and
  - compliance with listing regulations and other statutory and regulatory requirements
- Facilitate external audit and discuss with external auditors' major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary),
- Review the Management Letter issued by external auditors and Management's response thereto,
- Ensure coordination between the internal and external auditors of the Company,
- Review the scope and extent of internal audit and ensure that the internal audit function has adequate resources and is appropriately placed within the Company,
- Consider major findings of internal investigations and Management's response thereto,
- Ascertain that the internal control systems including financial and operational controls, accounting system and reporting structure are adequate and effective,
- Review the Company's statement on internal control systems prior to endorsement by the Board of Directors,
- Institute special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the CEO and consider remittance of any matter to the external auditors or to any other external body,
- Determine compliance with relevant statutory requirements,
- Monitor compliance with the best practices of corporate governance and identification of significant violations thereof; and

- Consider any other issue or matter as may be assigned by the Board of Directors.

## Corporate Social Responsibility (CSR) Committee

1. Mr. Abid Saeed	Chairman
2. Mr. Masood Siddiqui	Member
3. Senator Mir Wali Muhammad Badini	Member
4. Mr. Babar Yaqoob Fateh Muhammad	Member
5. Syed Masieh-ul-Islam	Member
6. Mr. Mohomed Bashir	Member
7. Mr. Raza Ullah Khan	Member
Manager (CSR)	Secretary

## Terms of Reference

- To recommend the annual budget (along with a detailed list of all CSR related initiatives, presented in line with CSR Policy) at the beginning of each financial year,
- To recommend changes in the CSR Policy as and when needed,
- To review and monitor the progress of ongoing CSR projects on a quarterly basis for which detailed report to be provided to CSR Committee; and
- To ensure that all activities carried out under the head of CSR are audited by an external auditor (each financial year) and the audit report circulated to the Board of Directors.



## Core Management Team

**Mr. Masood Siddiqui**  
Managing Director & CEO

**Mr. Zahid Imran Farani**  
Executive Director  
(Exploration)

**Mr. Basharat A. Mirza**  
Executive Director  
(Strategic Business Planning)

**Mr. Muhammad Rafi**  
Acting Executive Director  
(Finance)/CFO

**Mr. Masood Nabi**  
Executive Director  
(Human Resource)

**Mr. Shamim Iftikhar Zaidi**  
Acting Executive Director  
(Petroserv)

**Mr. Muhammad Riaz Khan**  
Executive Director  
(Joint Ventures)

**Mr. M. Khalid Subhani**  
Acting Executive Director  
(Production)



From Left to Right

Mr. Masood Nabi, Mr. Muhammad Riaz Khan, Mr. Muhammad Rafi, Mr. Masood Siddiqui,  
Mr. Shamim Iftikhar Zaidi, Mr. Basharat A. Mirza, Mr. M. Khalid Subhani, Mr. Zahid Imran Farani

# Exploration Licenses

As at 30 June 2012

Sr. No.	Blocks	Districts / Province	Area (Sq. Kms)	Date of Grant	Working Interest
<b>OGDCL 100% OWNED CONCESSIONS</b>					
1	Fateh Jang	Islamabad, Rawalpindi & Attock, Punjab	2,136.46	05-11-02	
2	Jandran	Loralai, Barkhan & Kohlu, Balochistan	408.00	20-09-89	
3	Rachna	Lieah, Jhang, Toba Tek Singh, Khanewal & Muzaffar Garh, Punjab	1,189.55	08-11-03	
4	Saruna	Khuzdar & Lasbella, Balochistan	2,431.62	17-02-04	
5	Shahana	Kharan & Panjgur, Balochistan	2,445.06	29-12-04	
6	Multan North	Lieah, Jhang, Khanewal, Multan & Muzaffar Garh, Punjab	2,498.97	11-02-05	
7	Samandar	Awaran & Uthal, Balochistan	2,495.33	06-07-05	
8	Latamber	Bannu & North Waziristan Agency, KPK	331.47	24-10-05	
9	Tigani	Shikarpur, Jacobabad & Sukkur, Sindh	270.60	13-02-06	
10	Thano Beg	Lasbela, Dadu & Karachi, Sindh	2,404.73	13-02-06	
11	Thal	Khairpur, Sukkur & Ghotki, Sindh	1,622.67	13-02-06	
12	Wali	Bannu, Laki Marwat & South Waziristan Agency, KPK	2,179.26	31-05-06	
13	Mianwali	Mianwali, Chakwal, Khushab & Laki Marwat, Punjab	2,280.91	31-05-06	
14	Soghri	Kohat & Attock, KPK/Punjab	588.09	31-05-06	
15	Shaan	Qila Saifullah, Zob & Musa Khel Bazar, Balochistan	2,489.80	13-07-07	
16	Mari East	Ghotki, R.Y.Khan & Rajanpur, Sindh/Punjab	1,399.44	21-01-10	
17	Lakhi Rud	Musa Khel, Barkhan, Loralai & Kohlu Agency, Balochistan	2,488.78	21-01-10	
18	Channi Pull	Rawalpindi & Islamabad, Punjab	148.02	16-02-10	
19	Jandran West	Kohlu & Barkhan, Balochistan	759.46	16-02-10	
20	Eastern Offshore Indus-A	Offshore Area	2,500.00	05-07-07	
21	Offshore Indus-R	Offshore Area	1,492.23	19-04-07	
22	Offshore Indus-G	Offshore Area	7,466.02	09-02-07	
<b>Sub Total</b>			<b>42,026.47</b>		
<b>OGDCL OPERATED JOINT VENTURE CONCESSIONS (OGDCL 95%, GHPL 5%)</b>					
1	Bitrisim	Nawabshah, Khairpur & Sanghar, Sindh	1,445.11	27-09-97	
2	Khewari	Nawabshah & Khairpur, Sindh	1,276.40	29-12-99	
3	Nim	Hyderabad, Sindh	229.58	29-12-99	
4	Tando Allah Yar	Hyderabad, Sindh	403.34	27-09-97	
5	Zin	Dera Bugti, Kohlu & Nasirabad, Balochistan	5,559.74	15-08-96	
<b>Sub Total</b>			<b>8,914.17</b>		
<b>OGDCL OPERATED JOINT VENTURE CONCESSIONS (with other E &amp; P Companies)</b>					
1	Gurgilot	Kohat & Attock, KPK/Punjab	347.84	28-06-00	OGDCL 75%, POL 20%, GHPL 5%
2	Nashpa	Kohat, Karak, North Waziristan Agency & Mianwali, Punjab/KPK	778.94	16-04-02	OGDCL 65%, PPL 30%, GHPL 5%
3	Kohat	Kohat, Nowshera, Orakzai Agency & Dara Adam Khel, KPK	1,107.21	30-02-09	OGDCL 30%, Tullow 40%, MGCL 20%, Saif Energy 10%
4	Sinjhor	Sanghar & Khairpur, Sindh	1,283.43	29-12-99	OGDCL 76%, OPL 19%, GHPL 5%
5	Kalchas	Kohlu, Dera Bugti & Rajanpur, Balochistan/Punjab	2,068.32	29-12-04	OGDCL 50%, MGCL 20%, Tullow 30%
6	Kohlu	Kohlu, Dera Bugti & Barkhan, Balochistan	2,459.11	29-12-04	OGDCL 40%, MGCL 30%, Tullow 30%
7	Guddu	Rajanpur, Rahim Yar Khan, Sukkur & Jacobabad, Punjab/Sindh	2,093.40	04-12-06	OGDCL 70%, IPRTOC 11.5%, SEPL 13.5%, GHPL 5%
<b>Sub Total</b>			<b>10,138.25</b>		
<b>Total Operated</b>			<b>61,078.89</b>		
<b>NON-OPERATED JOINT VENTURE CONCESSIONS</b>					
1	Block-28	Sibbi, Kohlu & Loralai, Balochistan	6,200.00	14-01-91	Tullow 95%, OGDCL 5%
2	Bannu West	Bannu & North Waziristan, KPK & Tribal Areas	1,229.57	27-04-05	Tullow 40%, OGDCL 40%, MGCL 10%, SEL 10%
3	Tal Block	Kohat, Karak & Bannu, KPK & Tribal Areas	3,305.86	11-02-99	MOL 10%, OGDCL 30%, PPL 30%, POL 25%, GHPL 5%
4	Offshore Indus-U	Offshore Area	6,294.28	21-07-06	UEPL 72.5%, OGDCL 27.5%
5	Offshore Indus-V	Offshore Area	7,377.03	21-07-06	UEPL 72.5%, OGDCL 27.5%
6	Offshore Indus-W	Offshore Area	7,270.17	21-07-06	UEPL 80%, OGDCL 20%
7	Offshore Indus-S	Offshore Area	2,129.91	22-03-07	UEPL 50%, OGDCL 50%
<b>Total Non-Operated</b>			<b>33,806.82</b>		

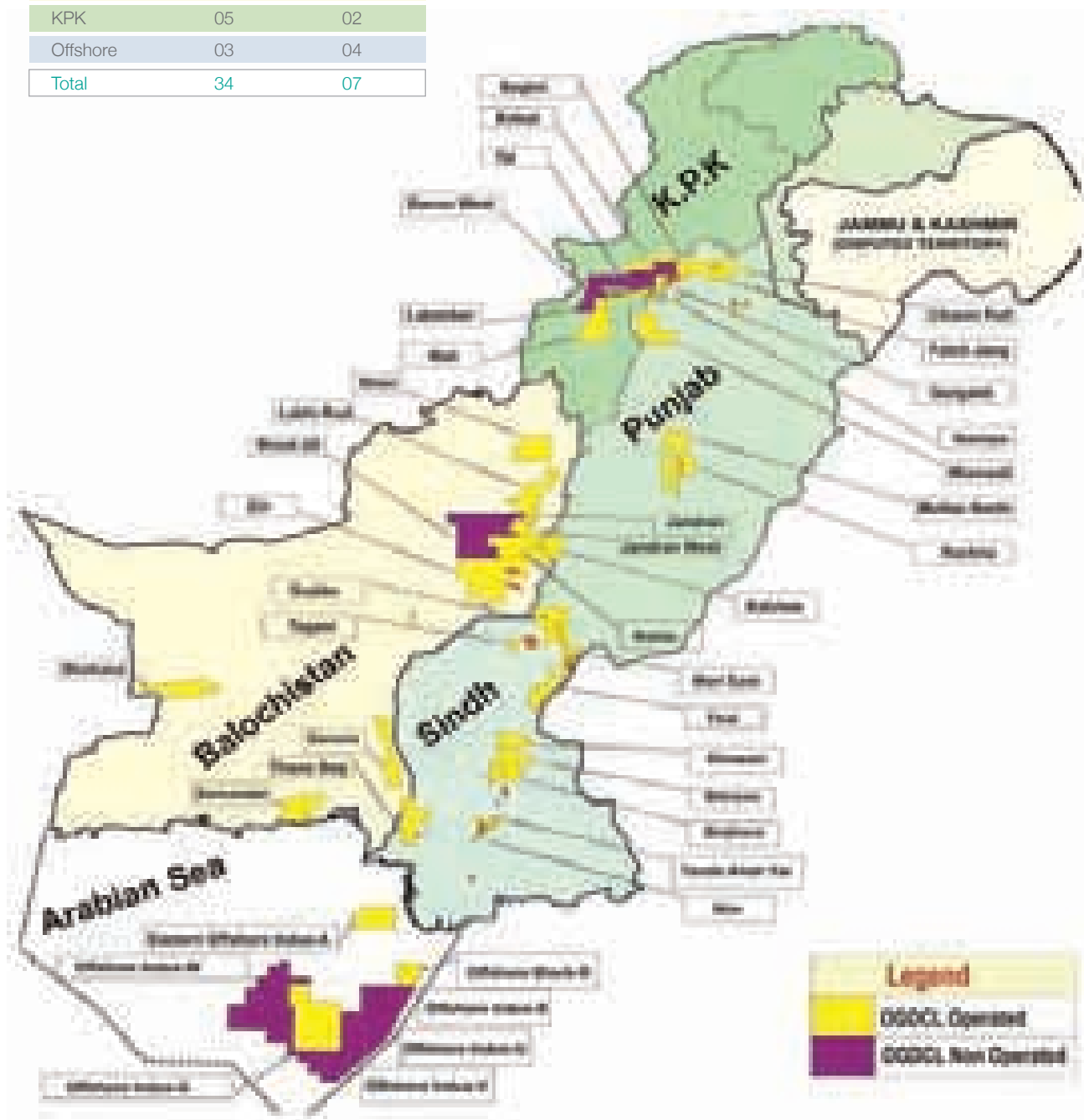


# Concession Portfolio (Exploration Licenses)

As at 30 June 2012

## Summary of Exploration Licenses

Province/Area	Operated	Non-Operated
Punjab	07	-
Sindh	09	-
Balochistan	10	01
KPK	05	02
Offshore	03	04
<b>Total</b>	<b>34</b>	<b>07</b>



# Development & Production / Mining Leases

As at 30 June 2012

## OGDCL 100% OWNED LEASES

Sr. No.	Lease	Districts / Province	Area (Sq. Kms)	Date of Grant
1	Fimkassar	Chakwal, Punjab	27.98	19-12-92
2	Bhal Syedan	Attock, Punjab	16.41	11-04-94
3	Dakhni (ML)	Attock, Punjab	267.83	23-04-84
4	Kal	Chakwal, Punjab	41.96	13-08-96
5	Missakeswal	Rawalpindi, Punjab	23.43	11-04-94
6	Rajian	Chakwal & Jehlum, Punjab	39.09	28-02-96
7	Sadkal	Attock, Punjab	26.77	24-01-94
8	Toot (ML)	Attock, Punjab	67.97	02-11-68
9	Dhodak	Dera Gazi Khan, Punjab	41.92	01-02-95
10	Loti (ML)	Dera Bugti Agency, Balochistan	204.11	14-11-86
11	Nandpur	Multan & Jhang, Punjab	45.05	12-03-96
12	Punjpri	Multan & Jhang, Punjab	45.18	12-03-96
13	Pirkoh ML (Additional)	Dera Bugti Agency, Balochistan	13.57	14-07-88
14	Pirkoh	Sibi (Bugti Tribal Territory), Balochistan	141.69	08-08-77
15	Bahu	Jhang, Punjab	11.22	19-05-08
16	Sara West	Ghotki, Sindh	168.41	08-06-01
17	Uch	Dera Bugti Agency, Balochistan	121.00	01-07-96
18	Bagla	Thatta & Badin, Sindh	29.70	27-02-95
19	Bobbi / Dhamarkhi (ML)	Sanghar, Sindh	128.93	23-01-90
20	Buzdar	Hyderabad, Sindh	6.58	13-12-99
21	Chak 5 Dim South	Sanghar, Sindh	15.92	18-03-96
22	Daru	Thatta, Sindh	10.26	07-04-90
23	Hundi	Dadu & Hyderabad, Sindh	15.04	21-09-02
24	Kunnar Deep (ML)	Hyderabad, Sindh	16.07	17-05-08
25	Kunnar West (ML)	Hyderabad, Sindh	3.13	17-05-08
26	Kunnar (ML)	Hyderabad, Sindh	34.21	23-01-90
27	Lashari Centre & South	Hyderabad, Sindh	23.15	25-06-89
28	Missan	Hyderabad, Sindh	2.50	12-07-99
29	Nur	Thatta & Badin, Sindh	30.64	27-02-95
30	Pali	Sanghar, Sindh	16.43	17-11-01
31	Pasahki Deep	Hyderabad, Sindh	18.08	17-05-08
32	Pasahki & Pasahki North	Hyderabad, Sindh	27.95	27-01-90
33	Sari Sing (ML)	Dadu, Sindh	25.89	30-07-08
34	Sono	Hyderabad, Sindh	25.08	23-07-89
35	Tando Alam (ML)	Hyderabad, Sindh	38.62	30-07-85
36	Thora / Thora East & Thora Additional (ML)	Hyderabad, Sindh	15.20	23-01-90

## OGDCL OPERATED JOINT VENTURE LEASES

Sr. No.	Lease	Districts / Province	Area (Sq. Kms)	Date of Grant	Partners
1	Chak Naurang (ML)	Chakwal, Punjab	72.70	14-11-88	OGDCL 85%, POL 15%
2	Dars	Hyderabad, Sindh	6.02	24-01-05	OGDCL 77.5%, GHPL 22.5%
3	Dars West	Hyderabad, Sindh	5.20	24-01-05	OGDCL 77.5%, GHPL 22.5%
4	Jakhro	Sanghar, Sindh	35.05	13-02-02	OGDCL 77.5%, GHPL 22.5%
5	Noorai Jagir	Hyderabad, Sindh	2.43	16-08-08	OGDCL 77.5%, GHPL 22.5%
6	Tando Allah Yar	Hyderabad, Sindh	3.35	24-01-05	OGDCL 77.5%, GHPL 22.5%
7	Qadirpur	Ghotki & Kashmore, Sindh	389.16	18-08-92	OGDCL 75%, KUFPEC 8.5%, PPL 7%, PKP 4.75%, PKP-II 4.75%
8	Chanda	Kohat, KPK	32.32	01-06-02	OGDCL 72%, GHPL 17.5%, ZPCL 10.5%
9	Jhal Magsi South	Jhal Magsi, Balochistan	16.10	24-07-09	OGDCL 56%, POL 24%, GHPL 20%
10	Nim West	Hyderabad, Sindh	3.25	21-05-12	OGDCL 77.5%, GHPL 22.5%

## NON-OPERATED JOINT VENTURE LEASES

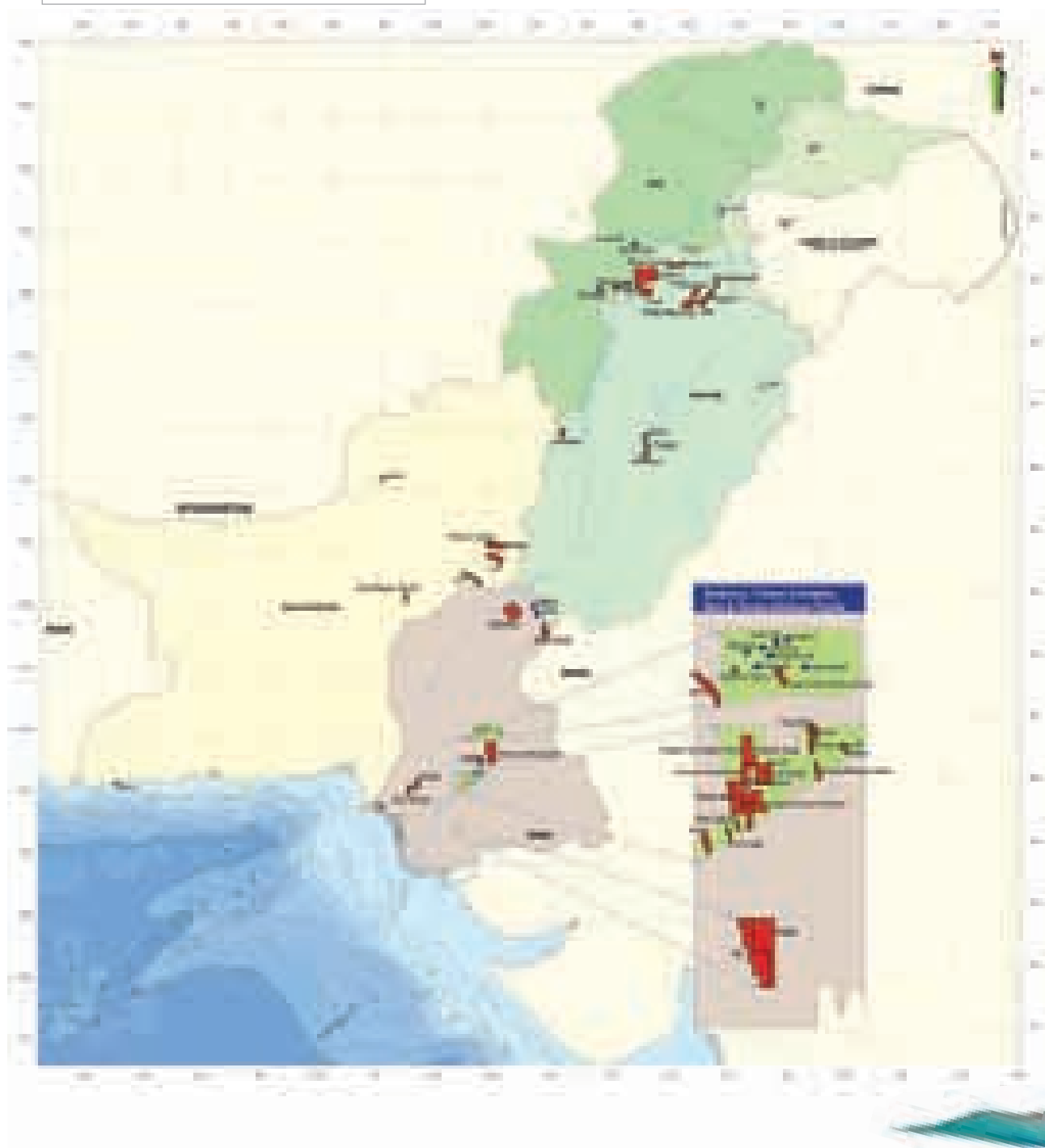
Sr. No.	Lease	Districts / Province	Area (Sq. Kms)	Operator	Partners
1	Badin-II	Tando Muhammad Khan, Thatta & Badin, Sindh	186.05	UEPL 51%	OGDCL 49%
2	Badin-II Rev	Thatta, Hyderabad & Badin, Sindh	33.88	UEPL 76%	OGDCL 24%
3	Badin-III	Tando Muhammad Khan, Thatta & Badin, Sindh	35.63	UEPL 60%	OGDCL 15%, GHPL 25%
4	Manzalai	Karak, Kohat & Bannu, KPK	382.89	MOL 8.421%	OGDCL 27.7632%, PPL 27.7632%, GHPL 15%, POL 21.0526%
5	Adhi	Rawalpindi & Jehlum, Punjab	199.88	PPL 39%	OGDCL 50%, POL 11%
6	Ratana	Attock, Punjab	214.50	OPL 65.91%	OGDCL 25%, AOC 4.545%, POL 4.545%
7	Dhumal	Attock, Punjab	24.76	OPL 70%	OGDCL 20%, AOC 5%, POL 5%
8	Bhangali	Gujjar Khan, Punjab	45.30	OPL 40%	OGDCL 50%, AOC 3%, POL 7%
9	Bhit	Dadu, Sindh	250.08	ENI 40%	OGDCL 20%, PKP KPBV 28%, PKP KIR B.V 6%, PKP-KIR-II B.V 6%
10	Badhra	Dadu, Sindh	230.26	ENI 40%	OGDCL 20%, PKP KPBV 28%, PKP KIR B.V 6%, PKP-KIR-II B.V 6%
11	Kadanwari	Khairpur, Sindh	457.82	ENI 18.42%	OGDCL 50%, PKP-Kad Ltd 15.79%, PKP-Kad-II Ltd 15.79%
12	Miano	Sukkur, Sindh	814.02	OMV 17.68%	OGDCL 52%, PPL 15.16%, ENI 15.16%
13	Pindori	Chakwal, Punjab	86.58	POL 35%	OGDCL 50%, AOC 15%
14	Badar	Kashmor, Sukkur & Ghotki, Sindh	122.00	PEL 26.32%	OGDCL 50%, SHERRITT 15.79%, Spud Energy 7.89%
15	Sara & Suri	Ghotki, Sindh	106.54	Tullow 38.18%	OGDCL 40%, POL 14.55%, AOC 7.27%

# Lease Map

As at 30 June 2012

## Summary of Leases

Province/Area	Operated	Non-Operated
Punjab	13	05
Sindh	27	09
Balochistan	05	-
KPK	01	01
<b>Total</b>	<b>46</b>	<b>15</b>



# Six Years Performance

		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Operational Performance</b>							
Seismic Survey - 2D	L. Kms	3,282	2,889	5,129	2,493	1,500	2,589
- 3D	Sq. Kms	661	1,067	1,128	290	660	654
Wells Drilled	Numbers	41	31	30	26	21	17
Oil & Gas Discoveries	Numbers	10	5	2	6	2	2
<b>Quantity Sold</b>							
Crude Oil	Thousand BBL	13,930	15,037	14,438	13,343	13,224	13,713
Gas	MMcf	344,032	358,868	364,036	354,327	362,924	381,863
LPG	M. Tons	139,480	125,482	79,145	73,881	71,061	75,005
Sulphur	M. Tons	16,638	29,065	24,673	20,018	34,400	21,400
White Petroleum Products	Thousand BBL	895	547	148	64	30	19
<b>Financial Results</b>							
Net Sales	Rs in billion	100.73	125.91	130.83	142.57	155.63	197.84
Other Revenues	Rs in billion	4.03	3.91	3.43	3.36	3.38	9.75
Profit before Taxation	Rs in billion	60.75	78.31	80.93	88.55	90.98	133.08
Profit after Taxation	Rs in billion	45.25	44.34	55.54	59.18	63.53	96.91
<b>Balance Sheet</b>							
Share Capital	Rs in billion	43.01	43.01	43.01	43.01	43.01	43.01
Capital Reserve and Unappropriated Profit	Rs in billion	63.93	67.41	83.16	114.38	158.56	225.36
Non-Current Liabilities	Rs in billion	18.55	20.46	30.53	36.63	38.44	45.36
Current Liabilities	Rs in billion	11.26	21.44	21.29	34.84	21.78	24.59
Total Equity & Liabilities	Rs in billion	136.75	152.31	177.99	228.87	261.78	338.32
Fixed Assets	Rs in billion	57.49	67.71	87.69	103.18	106.03	116.04
Long Term Investments, Loans, Rec. & Prepayments	Rs in billion	4.34	4.78	4.84	5.25	6.14	7.40
Current Assets	Rs in billion	74.92	79.82	85.46	120.43	149.60	214.88
Total Assets	Rs in billion	136.75	152.31	177.99	228.87	261.78	338.32
<b>Cash Flow Summary</b>							
Net Cash from Operating Activities	Rs in billion	37.21	51.60	52.98	61.51	67.88	48.58
Net Cash used in Investing Activities	Rs in billion	(12.72)	(15.59)	(22.91)	(22.84)	(15.92)	(14.66)
Net Cash used in Financing Activities	Rs in billion	(38.15)	(41.47)	(39.41)	(28.77)	(18.66)	(30.61)
Increase / (Decrease) in Cash and Cash Equivalents	Rs in billion	(13.66)	(5.46)	(9.34)	9.90	33.30	3.31
Cash and Cash Equivalents at beginning of the Year	Rs in billion	37.39	23.74	18.28	8.94	18.84	52.14
Cash and Cash Equivalents at end of the Year	Rs in billion	23.74	18.28	8.94	18.84	52.14	55.45
<b>Key Indicators</b>							
<b>Profitability Ratios</b>							
Gross Profit Margin	%	69%	69%	70%	71%	66%	70%
Net Profit Margin	%	45%	35%	42%	42%	41%	49%
EBITDA Margin to Sales	%	67%	69%	70%	71%	71%	74%
Return on Average Capital Employed	%	43%	41%	47%	42%	35%	41%
<b>Liquidity Ratios</b>							
Current Ratio	Times	6.65	3.72	4.01	3.46	6.87	8.74
Acid Test / Quick Ratio	Times	5.44	2.94	3.25	3.03	6.22	8.21
Cash to Current Liabilities	Times	2.13	0.86	0.43	0.54	2.40	2.26
Cash Flow from Operations to Sales	%	74%	73%	75%	66%	87%	59%
<b>Activity / Turnover Ratios</b>							
Debtor Turnover in Days <sup>(1)</sup>	No. of days	95	100	135	178	189	200
Total Assets Turnover Ratio	%	76%	87%	79%	70%	63%	66%
<b>Investment / Market Ratios</b>							
Earnings per Share	Rupees	10.52	10.31	12.91	13.76	14.77	22.53
Price Earning Ratio	Times	11.39	12.06	6.09	10.32	10.36	7.12
Dividend Yield Ratio	%	8%	8%	10%	4%	4%	5%
Dividend Payout Ratio	%	86%	92%	64%	40%	37%	32%
Dividend Coverage Ratio	Times	1.17	1.09	1.57	2.50	2.69	3.11
Cash Dividend per Share	Rupees	9.00	9.50	8.25	5.50	5.50	7.25
Market Price per Share <sup>(2)</sup>	Rupees	119.80	124.36	78.64	142.00	153.00	160.44
- As on June 30							
- High during the Year		156.00	140.80	125.49	142.00	179.70	170.70
- Low during the Year		113.20	104.90	40.56	80.71	128.80	120.29
Break-up Value per Share	Rupees	24.86	25.67	29.34	36.60	46.87	62.40
<b>Contribution to National Exchequer</b>		Rs in billion	78.31	99.75	86.45	80.24	76.84
			100.55				

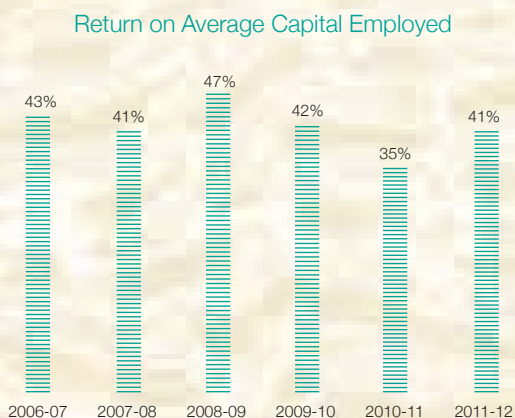
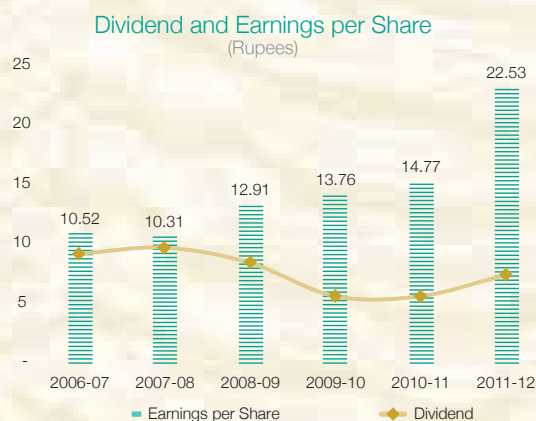
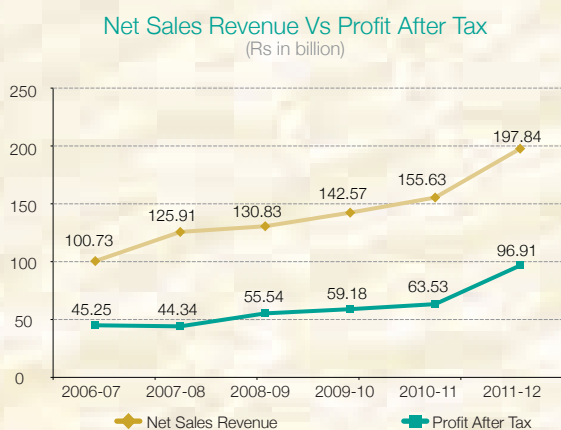
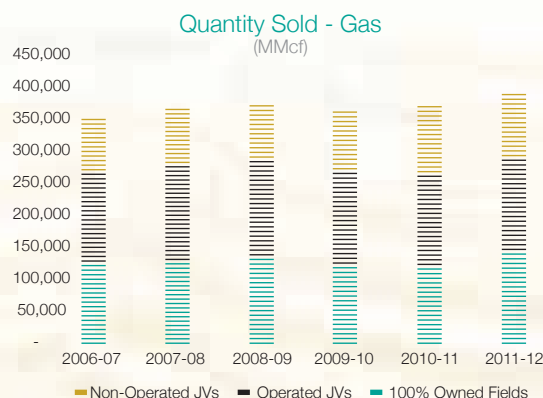
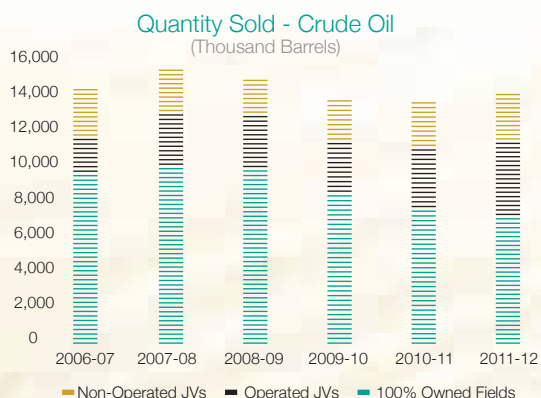
Note: Previous year figures have been rearranged and/or reclassified, wherever, necessary for the purpose of comparison

1 - 366 days have been used for the year 2007-08 & 2011-12

2 - Source: Karachi Stock Exchange (KSE)

# Graphical Presentation

## Six Years Operational & Financial Performance



# Vertical and Horizontal Analysis

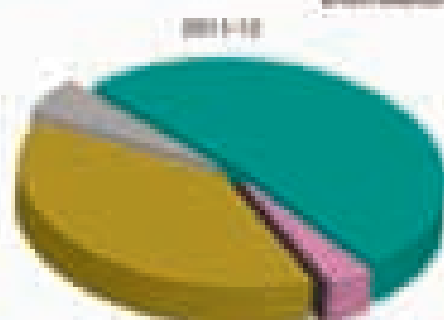
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Vertical Analysis</b>						
<b>Profit and Loss Account</b>						
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0
Royalty	(10.9)	(13.8)	(11.6)	(11.7)	(11.4)	(11.7)
Operating Expenses	(19.0)	(15.6)	(17.3)	(16.6)	(21.2)	(17.4)
Transportation Charges	(1.1)	(1.2)	(1.2)	(1.0)	(1.4)	(1.0)
<b>Gross Profit</b>	<b>69.0</b>	<b>69.4</b>	<b>69.9</b>	<b>70.7</b>	<b>66.0</b>	<b>70.0</b>
Other Income	4.0	3.1	2.6	2.3	2.1	4.9
Exploration and Prospecting Expenditure	(7.4)	(5.3)	(5.7)	(5.5)	(4.3)	(2.0)
G & A Expenses	(1.3)	(1.0)	(1.0)	(1.1)	(1.4)	(1.1)
Provision for Impairment Loss	(0.4)	(0.3)	-	-	-	-
Finance Cost	(0.5)	(0.4)	(0.7)	(0.9)	(1.0)	(0.9)
Workers' Profit Participation Fund	(3.2)	(3.5)	(3.3)	(3.3)	(3.1)	(3.5)
Share of Profit in Associate	0.0	0.0	0.0	0.0	0.1	0.0
<b>Profit before Taxation</b>	<b>60.3</b>	<b>62.2</b>	<b>61.9</b>	<b>62.1</b>	<b>58.3</b>	<b>67.3</b>
Taxation	(15.4)	(27.0)	(19.4)	(20.6)	(17.6)	(18.3)
<b>Profit for the Year</b>	<b>44.9</b>	<b>35.2</b>	<b>42.5</b>	<b>41.5</b>	<b>40.7</b>	<b>49.0</b>
<b>Balance Sheet</b>						
Share Capital & Reserves	78.2	72.5	70.9	68.8	77.0	79.3
Non-Current Liabilities	13.6	13.4	17.1	16.0	14.7	13.4
Current Liabilities	8.2	14.1	12.0	15.2	8.3	7.3
<b>Total Equity and Liabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Non-Current Assets	45.2	47.6	52.0	47.4	42.9	36.5
Current Assets	54.8	52.4	48.0	52.6	57.1	63.5
<b>Total Assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Horizontal Analysis</b>						
<b>Profit and Loss Account</b>						
Net Sales	100.0	125.0	129.9	141.5	154.5	196.4
Royalty	100.0	158.4	138.6	153.0	161.9	211.4
Operating Expenses	100.0	102.3	118.3	123.8	172.2	179.4
Transportation Charges	100.0	135.4	139.9	137.2	202.3	186.6
<b>Gross Profit</b>	<b>100.0</b>	<b>125.8</b>	<b>131.5</b>	<b>144.7</b>	<b>147.7</b>	<b>198.9</b>
Other Income	100.0	97.0	84.6	82.8	82.9	242.4
Exploration and Prospecting Expenditure	100.0	89.3	100.7	106.7	89.4	54.7
G & A Expenses	100.0	96.8	103.4	123.9	173.2	170.6
Provision for Impairment Loss	100.0	85.1	-	-	-	-
Finance Cost	100.0	100.8	173.8	239.0	278.7	322.6
Workers' Profit Participation Fund	100.0	136.5	132.5	145.0	149.0	218.0
Share of Profit in Associate	100.0	100.8	129.7	144.7	177.0	196.8
<b>Profit before Taxation</b>	<b>100.0</b>	<b>128.9</b>	<b>133.2</b>	<b>145.8</b>	<b>149.8</b>	<b>219.1</b>
Taxation	100.0	219.2	163.8	189.5	177.1	233.4
<b>Profit for the Year</b>	<b>100.0</b>	<b>98.0</b>	<b>122.7</b>	<b>130.8</b>	<b>140.4</b>	<b>214.1</b>
<b>Balance Sheet</b>						
Share Capital & Reserves	100.0	103.3	118.0	147.2	188.5	251.0
Non-Current Liabilities	100.0	110.3	164.6	197.5	207.2	244.5
Current Liabilities	100.0	190.4	189.1	309.4	193.4	218.4
<b>Total Equity and Liabilities</b>	<b>100.0</b>	<b>111.4</b>	<b>130.2</b>	<b>167.4</b>	<b>191.4</b>	<b>247.4</b>
Non-Current Assets	100.0	117.2	149.7	175.4	181.4	199.7
Current Assets	100.0	106.5	114.1	160.7	199.7	286.8
<b>Total Assets</b>	<b>100.0</b>	<b>111.4</b>	<b>130.2</b>	<b>167.4</b>	<b>191.4</b>	<b>247.4</b>



# Statement of Value Addition

	2011-12 (in millions of Naira)	2010-11 (in millions of Naira)
Gross Revenue	216,812	172,824
Less: Operating, General & Administration Expenses, Transportation & Depreciation Expenses	17,266	16,228
	199,546	156,596
Add:		
Income from Financial Assets	8,102	3,226
Income from Non-Financial Assets	568	300
Other	87	78
Less:		
Other Expenses	1,718	1,485
<b>Total Value Added</b>	<b>207,255</b>	<b>158,915</b>
<b>Distribution:</b>		
Employees as Remuneration	71,486	6,547
Government as		
Corporate Tax	26,177	27,438
Dividends	22,578	14,481
Leases - Sales Tax	15,522	14,758
Excise Duty	3,186	2,826
Development Surcharge	36	7
Stomach or Crude Oil Price	1	89
Royalty	23,123	17,704
Stomach Profit Participation Fund	7,004	4,789
	127,347	87,331
Shareholders other than the Government as Dividends	7,344	4,942
To Society	284	188
Retained in Business		
Capital Reserve	547	188
Depreciation	4,322	2,787
Amortisation	9,571	12,062
<b>Net Savings Appropriated Profit</b>	<b>53,462</b>	<b>43,874</b>
	60,482	60,237
<b>Total Value Added</b>	<b>207,255</b>	<b>158,915</b>

Distribution of Value Added



■ Government 24.88%  
 ■ Shareholders other than Govt. 2.48%  
 ■ Society 0.14%  
 ■ Retained in Business 26.79%  
 ■ Employees Remuneration 34.21%

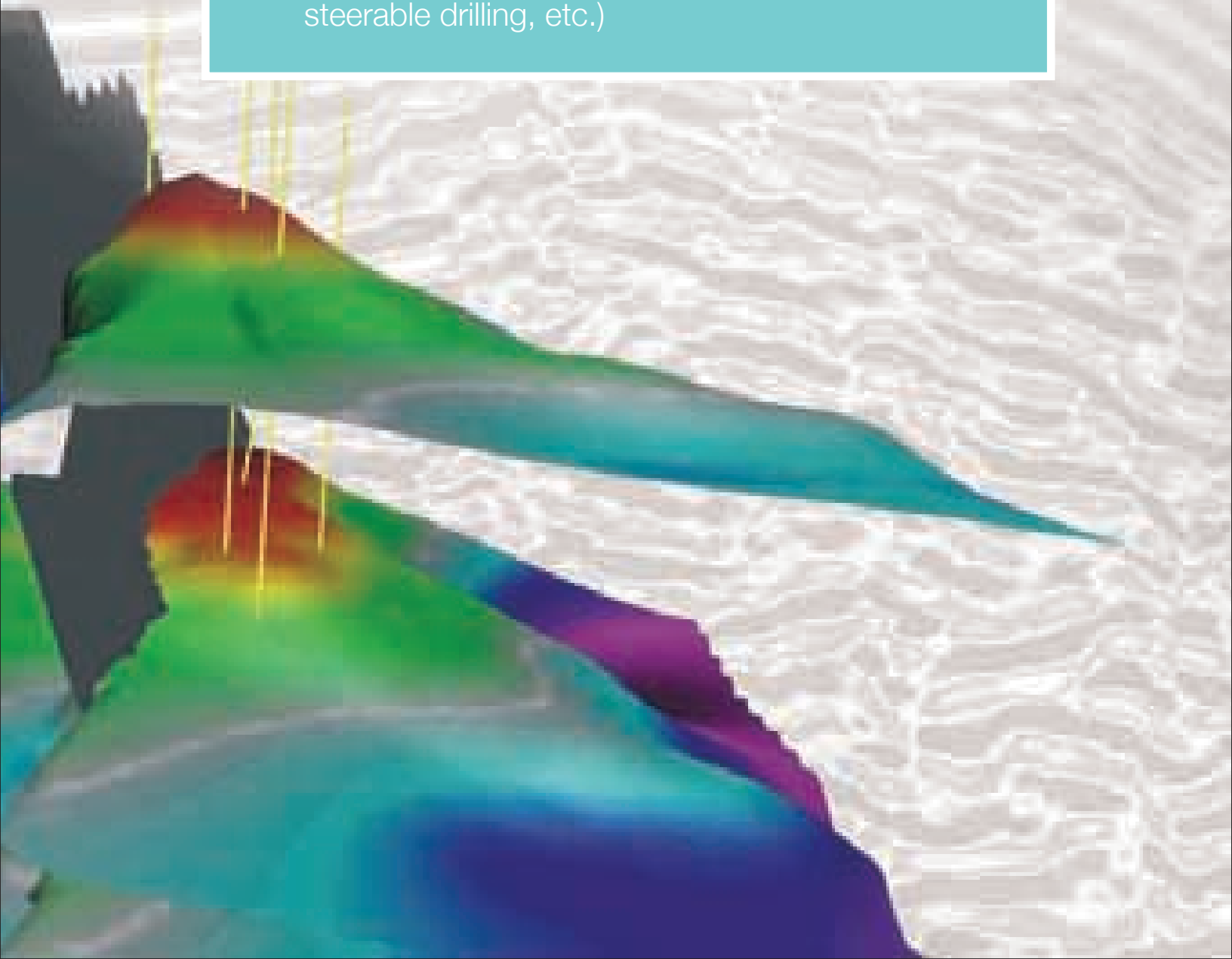


■ Government 22.92%  
 ■ Shareholders other than Govt. 3.12%  
 ■ Society 0.20%  
 ■ Retained in Business 28.82%  
 ■ Employees Remuneration 3.94%



## DRILLING STRATEGY

- Acquisition of improved mud technology to reduce down hole problems (silicate, glycol)
- Use of expandable technology (tubulars, liner and screens) where applicable to improve operational efficiency
- Investigate use of new / upcoming technologies (casing drilling, under balance drilling, rotary steerable drilling, etc.)







## Managing Director's Review



OGDCL achieved significant success in the fiscal year 2011-12 again delivering strong financial results and stable operating performance that merits great pride in the Company's financial strength, high quality assets, business strategy and dedicated employees.

The Company's persistent efforts resulted in improved profitability along with increased production of crude oil and gas. The said increase in the Company's production along with the higher realized prices of crude oil, gas, LPG and sulphur led the Company to register a record Profit after Taxation (PAT) of Rs 96.906 billion in the reporting period translating into EPS of Rs 22.53. It is pertinent to mention, that this robust financial performance has been achieved against the backdrop of torrential rains and floods in the Southern region of the Country during the month of September 2011 and natural decline of production in some of the producing fields which negatively impacted the Company's production. In addition, prevailing inter-corporate circular debt issue in the industry along with law & order situation in few of the operational areas are other stumbling blocks in smooth running of the Company's exploration and development activities.

The Company's exploration strategy is aimed at maintaining a mixed portfolio of onshore exploration concessions while keeping a balance between accelerating exploration activities and risk mitigation with acceptable drilling success ratio and focus on reserves addition. In line with its exploration strategy, the Company during the year 2011-12, actively carried on the exploration work and acquired 2,589 L. Kms of 2D seismic data and 654 Sq. Kms of 3D seismic data from various exploration blocks. The Company also

spudded seventeen (17) new wells including seven (07) exploratory/appraisal wells and ten (10) development wells.

During the year under review, the Company's exploratory efforts to locate new hydrocarbon reserves yielded two (02) new significant oil and gas discoveries at Nashpa-2 exploratory well in district Karak, Khyber Pakhtunkhwa and at Zin X-1 exploratory well in district Dera Bugti, Balochistan. In addition, the Company has successfully completed the Phase-1 of KPD-TAY development project and brought Nashpa-2 online adding to a significant cumulative production of 7,500 barrels of crude oil per day, 130 MMcf of gas per day and 140 M.Tons of LPG per day in the system.

Beside the above mentioned successes, the celebration of Golden Jubilee representing fifty years of OGDCL's existence has been another main highlight of the year. The past five decades for the Company have been the story of continuous efforts and struggle in exploiting new reserves and optimizing oil and gas production for meeting growing energy demands of the Country. Competence and hard work of the Management & employees enabled OGDCL to attain the benchmark position as Pakistan's leading E&P Company.

The importance of energy in economic development and prosperity of any country can hardly be refuted.



The current macroeconomic conditions of Pakistan reveal that the Country is suffering from an unprecedented energy crisis for past few years. The prime contributing factors are the widening of energy demand-supply gap and natural depletion of oil and gas reserves from mature producing fields.

OGDCL, being the largest E&P Company of the Country is conscious of the above-said problems and is making concerted efforts on building a balanced resource portfolio leading to long term value creation, realization of substantial returns to the shareholders and for the accelerated growth of economy as a whole. This can be witnessed from the fact that the Company contributed around 58% of Pakistan's total oil production and 27% of its total natural gas production during the fiscal year 2011-12. In addition, the Company also contributed Rs 100.55 billion towards the national exchequer on account of corporate tax, dividends, royalty, general sales tax, excise duty and development surcharge.

Looking ahead, OGDCL continues to target long term production growth by focusing on expediting the completion of our ongoing development projects which on completion will further enhance oil and gas production of the Company. Furthermore, the Company is also engaged in aggressive exploration activities to discover new hydrocarbon reservoirs while leaving a minimal signature on the environment and at the same time

enhancing the welfare of communities where its operations are located.

We plan to meet our above said commitments by the active collaboration of all OGDCL stakeholders particularly the Government of Pakistan (GoP), Ministry of Petroleum and Natural Resources (MP&NR), JV partners and Company's shareholders and look forward to their contribution, assistance and support in the years ahead. In view of the solid operational and financial performance delivered by the Company during the fiscal year 2011-12, I congratulate the Management and employees for their hard work and dedication which helped the Company to sustain its growth and deliver yet another industry leading performance.

09 August 2012  
Islamabad



(Masood Siddiqui)  
Managing Director & CEO

## Directors' Report



On behalf of the Board of Directors, I am pleased to present operational and financial affairs of Oil and Gas Development Company Limited (OGDCL) and the audited financial statements together with the Auditors' Report for the year ended 30 June 2012.

During the year under review, the Company witnessed improved financial results despite torrential rains/floods in the Southern region of the Country during the month of September 2011 affecting Company's oil and gas production, natural decline of crude oil production in some of the producing fields, issue of inter-corporate circular debt and unfavorable security situation in few of the Company's operational areas. Company's sales revenue and Profit after Taxation increased by 27.1% and 52.5% to Rs 197.839 billion and Rs 96.906 billion resulting in EPS of Rs 22.53 compared to EPS of Rs 14.77 during the preceding year. These results are primarily attributable to higher realized prices of crude oil, gas, LPG and sulphur coupled with the increase in the production of gas and crude oil.

I am also delighted to mention that during the year, Company's exploratory efforts resulted in two (02) new significant oil and gas discoveries at Nashpa-2 exploratory well in District Karak, Khyber Pakhtunkhwa province and at Zin X-1 exploratory well in District Dera Bugti, Balochistan province. Out of the said discoveries, Nashpa-2 has already been put on production and is currently producing around 6,000 barrels of crude oil per day and 20 million cubic feet (MMcf) of gas per day. During the year under review, OGDCL's production on working interest basis averaged 37,615 barrels of

crude oil per day, 1,091 MMcf of gas per day and 205 M. Tons of LPG per day. It is pertinent to highlight here that Company's endeavors to enhance production led to a significant increase in daily net production of crude oil, gas and LPG which averaged 38,177 barrels, 1,175 MMcf and 283 M. Tons respectively during the month of June 2012. OGDCL expects that this rising trend in production will continue in the near future as the Company is making utmost efforts to explore new fields, develop already discovered fields and complete all its ongoing development projects on fast track basis.

On the basis of the sound financial results and stable operating performance during the year 2011-12 the Company's Management is optimistic to deliver industry leading returns to the shareholders in the future leading to sustainable growth and strengthening of business competitive position.

### Financial Performance Review

OGDCL's financial results for the year under review reflect land mark achievements. This can be witnessed by the fact that the Company's Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the year 2011-12 increased to Rs 145.662 billion up by 32.7% from the last year. The significant improvement in EBITDA is mainly due to higher realized prices of crude oil, gas & LPG which averaged at US\$ 84.91/BBL, Rs 228.56/Mcf and Rs 74,020/M. Ton compared to US\$ 72.05/BBL, Rs 214.03/Mcf and Rs 65,443/M. Ton respectively during the preceding year and also on account of increased gas, crude oil & LPG production. In addition, decrease in Exploration & Prospecting expenditures also contributed positively towards improved EBITDA as no well was declared dry and abandoned in the year 2011-12 against seven (07) wells declared dry and abandoned in the year 2010-11.

During the year under review, the Company registered a record Profit after Taxation of Rs 96.906 billion up by 52.5% over the preceding year owing to increase in the Earnings before Interest & Taxes (EBIT) and higher reported other income on account of increase in return on investments & bank deposits and exchange gain.

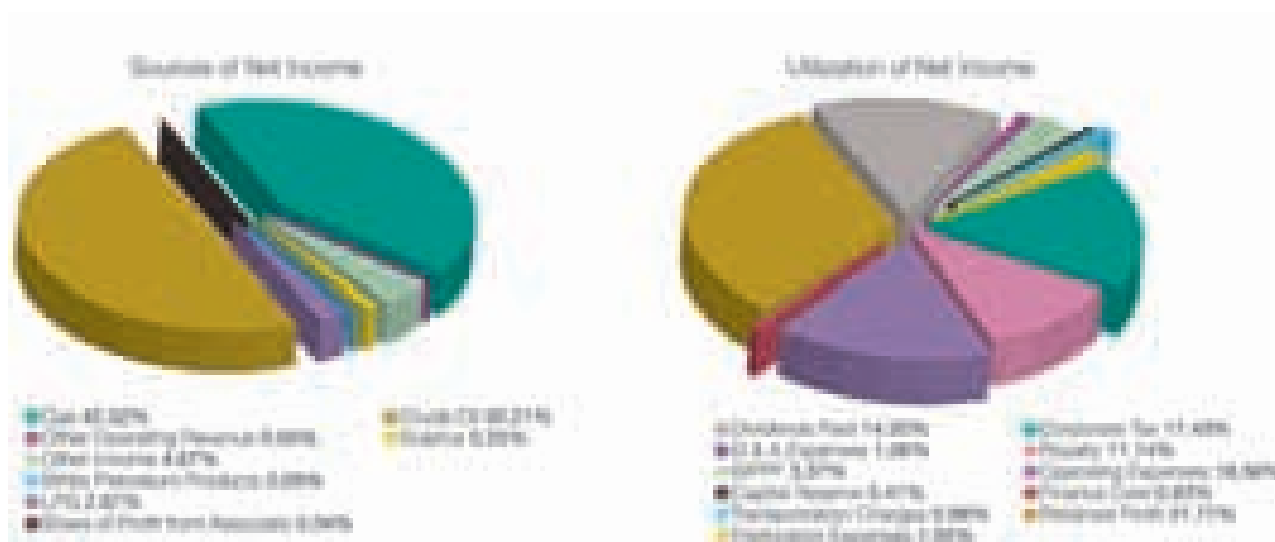
The Company's cash and cash equivalents at the end of the year increased by Rs 3.309 billion. However, the Company's liquidity position was negatively impacted due to the prevailing inter-corporate circular debt issue in the industry. OGDCL's trade debts as of 30 June

2012 were Rs 138.096 billion (30 June 2011: Rs 77.911 billion) out of which Rs 92.878 billion were overdue. The Management is vigorously following up for the recovery of overdue receivables and settlement of the issue of inter-corporate circular debt. Delays in settlement of the outstanding receivables can adversely affect the

cash resources of the Company and may trigger the need for borrowing in order to implement planned exploration and development activities/projects along with timely discharge of statutory obligations including payment of royalty, duties/taxes and dividend etc.

Financial results for the year ended 30 June 2012 are summarized below:

(Rs in billion)		
Profit before taxation		133.083
Taxation		(36.177)
<b>Profit for the year</b>		<b>96.906</b>
Unappropriated profit brought forward		154.497
<b>Profit available for appropriations</b>		<b>251.403</b>
<b>Appropriations</b>		
Transfer to capital reserves		(0.847)
<b>Distribution through Dividends</b>		
Final Dividend 2010-11 @ Rs 2.50 per share (25.00%)	(10.753)	
First Interim Dividend 2011-12 @ Rs 1.50 per share (15.00%)	(6.451)	
Second Interim Dividend 2011-12 @ Rs 1.50 per share (15.00%)	(6.451)	
Third Interim Dividend 2011-12 @ Rs 1.50 per share (15.00%)	(6.451)	(30.106)
<b>Unappropriated profit carried forward</b>		<b>220.449</b>



### Final Dividend

The Board of Directors has recommended the final cash dividend of Rs 2.75 per share in addition to three interim cash dividends of Rs 1.50 per share each already declared and paid during the year. This makes a total dividend of Rs 7.25 per share (72.5%) for the year ended 30 June 2012.

### Contribution to National Exchequer

Being the leading E&P Company of Pakistan, OGDCL is making enormous contribution towards the national exchequer on account of corporate tax, royalty, general sales tax, excise duty, development surcharge and dividend. During the year 2011-12, a sum of Rs 100.55 billion was contributed to the national exchequer. In addition, the Company's oil & gas production as an import substitution has significantly contributed towards foreign exchange savings.

## Business Review

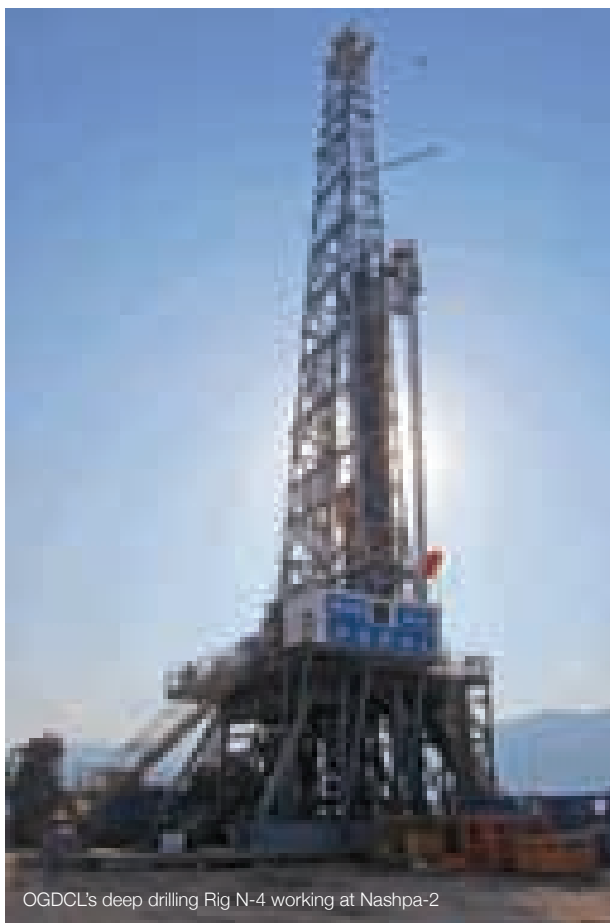
### Market Share

In terms of recoverable hydrocarbon reserves, hydrocarbon production and exploration acreage, OGDCL is the largest E&P Company of Pakistan. The Company holds the largest portfolio of the recoverable hydrocarbon reserves in Pakistan, at 31% of natural gas reserves and 48% of oil reserves respectively, as of 31 December 2011. In addition, OGDCL contributed 27% of Pakistan's total natural gas production and 58% of its oil production during the year 2011-12. It has the largest exploration acreage in Pakistan covering 23% of the total exploration acreage awarded as of 30 June 2012.

{Source: Pakistan Petroleum Information Service (PPIS)}

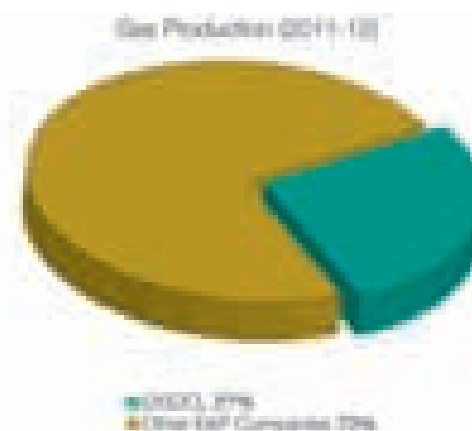
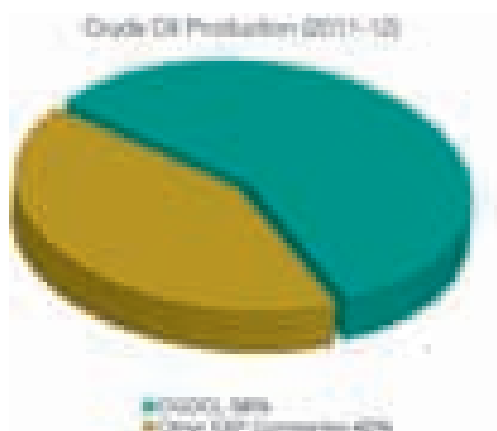
### Exploration and Development Activities

The Company's exploration strategy is to maintain a mixed portfolio of onshore exploration concessions in the established, promising and unexplored areas while



OGDCL's deep drilling Rig N-4 working at Nashpa-2

keeping a balance between accelerating exploration activities, risk mitigation with acceptable drilling success ratio and focus on reserves addition. OGDCL has





embarked upon in-house pilot projects for shale gas and tight gas exploration as well.

As at 30 June 2012, the Company held the largest exploration acreage in the Country having thirty four (34) exploration licenses which include twenty two (22) blocks with 100% interest and twelve (12) blocks as operated JV covering an area of 61,079 Sq. Kms. 100% owned blocks also include three (03) offshore



A diligent OGDCL's worker monitoring well site parameters

blocks. The Company also has working interest ownership in seven (07) blocks operated by other E&P companies.

During the period under review, the seismic crew of the Company acquired 2,589 L. Kms of 2D seismic data in exploration blocks namely Mari East, Soghri, Fateh Jang, Rachna, Multan North, Mianwali, Thal and Qadirpur and 654 Sq. Kms of 3D seismic data in Sinjhor, Tando Allah Yar, Bitrism and Chanda-Mela blocks. Further, 3,714 L. Kms of 2D seismic data was processed / reprocessed utilizing in-house expertise.

The Company, however, could not commence operations in eleven (11) exploration blocks namely Latamber, Wali, Jandran, Saruna, Shahana, Samandar, Shaan, Kohlu, Lakhi Rud, Kalchas and Jandran West due to security reasons. In this context, OGDCL is in close liaison with the respective provincial Governments and MP&NR for early resumption of exploration activities in the said blocks.

During the year under review, the Company marked twenty three (23) well locations and spudded seventeen (17) new wells including four (04) exploratory wells

namely Uch Deep-1B, Aradin-1, Naurang Shah-1 & Kohat-1, three (03) appraisal wells Dhacharapur-2, Zin-2 & Zin-3 and ten (10) development wells namely Rajian-6, Uch-19, 27, 32, Qadirpur-43 & 44 Extended Reach Wells (ERW), Qadirpur-45 & HRL-6 and Pasakhi-8 & 9. In addition, drilling/testing of fourteen (14) ongoing wells from previous financial year also remained underway during the current financial year. Subsequently, the Company spudded two (02) exploratory/appraisal wells namely Raja-1 and Nashpa-4 during the month of July 2012.

The Company is actively participating in offshore exploration activities as a non-operating JV partner in four JV concessions namely Offshore Block-S (50%), Block-U (27.5%), Block-V (27.5%) and Block-W (20%) operated by M/s United Energy Pakistan Limited (UEPL). OGDCL's offshore exploration portfolio includes three 100% owned concessions namely Offshore Indus-R, Eastern Offshore Indus-A and Offshore Indus-G. Formulation of a new JV in Offshore Indus-G is under process and the Company will be having 25% share in this JV while other prospective partners include M/s ENI (25% share with operatorship), M/s PPL (25%) and M/s UEPL (25%). Regarding Offshore Indus-R and Eastern Offshore Indus-A, OGDCL has awarded a Geological and Geophysical (G & G) evaluation study to a third party and results of the study are under consideration to decide the way forward for future exploration activities in these two blocks.

Furthermore, evaluation of different overseas exploration blocks is in progress and the Company is making efforts to acquire exploration block(s) in Commonwealth of Independent State, Africa & China. In this respect, various investment proposals are under consideration through joint ministerial conferences. The Company offered six (06) exploration blocks namely Shaan, Lakhi Rud, Jandran West, Saruna, offshore Indus-A and offshore Indus-R in Pakistan for JV on swap basis.

During the year under review, Prospectivity Evaluation reports of twenty six (26) exploration blocks have been completed and is in progress for five (05) new blocks. In addition, compilation of geological, geo-physical, geo-chemical, burial history & reserves data of fifty five (55) oil & gas fields in the sedimentary basins of the Country has been completed. During the reporting period, the Company also carried out 190 L. Kms of Geological field work in Mianwali exploration license area.



### Discoveries

The Company's exploratory efforts to locate new hydrocarbon reserves yielded two (02) new significant oil and gas discoveries at Nashpa-2 exploratory well in District Karak, Khyber Pakhtunkhwa province and at Zin X-1 exploratory well in District Dera Bugti, Balochistan province. Out of these discoveries, Nashpa-2 well has already been put on production and is currently contributing 6,000 barrels per day of crude oil and 20 MMcf of gas per day. The preliminary reserves estimates of these discoveries are 4.41 million barrels of oil/condensate and 606.02 billion cubic feet of gas. The Btu-adjusted Barrels of Oil Equivalent (BOE) reserves of these discoveries are 42.738 million BOE.

### Oil and Gas Reserves

OGDCL's total net remaining recoverable reserves as of 30 June 2012 stood at 167.42 million barrels of oil and 9,260 billion cubic feet of gas. The reported reserves are in accordance with the Reserves Evaluation Study-2010 carried out by an independent consultant M/s TRACS International, UK for all OGDCL operated fields.

### Production

Keeping in view the unprecedented energy crisis in the Country, OGDCL, as a leading Exploration & Production Company of Pakistan, is making all out efforts to enhance its reserves and production profile leading to long term value creation, substantial returns to its shareholders and for the growth of economy as a whole. The Company is striving to achieve the production growth through its production strategy which is aimed at maintaining and enhancing production level by expediting connectivity of newly discovered exploratory / appraisal & development wells in the system, employing latest techniques with an objective to keep natural decline from the mature producing fields to a minimum and undertaking/completing on-going development projects on seamless track.

During the period under review, the Company's endeavor to boost oil & gas production led to significant increase in the net gas production by approximately 7.7% due to commencement of gas production after completion of Phase-I of the KPD-TAY development

project, surge in gas production from Bahu, Pirkoh, Uch, Mela, Chanda, Nashpa, and Qadirpur fields along with increase in share of gas from non-operated JV fields. Similarly, the Company's net crude oil production also witnessed a modest increase.

It is pertinent to mention that the above said increase in the oil and gas production has been observed against the backdrop of torrential rains and floods which



A Sucker-Rod pump installed at Chak Naurang field.

continued intermittently during the first half of September 2011 mainly in the Southern region fields adversely affecting the Company's production activities. Further, the crude oil transportation from Bobi Oil Complex (BOC) to refineries remained suspended from 09 to 29 September 2011 due to deteriorated road conditions resulting from floods. In addition, strike of crude oil transporters at Chanda, Mela and Nashpa fields, Annual Turn Around (ATA) of plants installed at Dakhni, Chanda, Uch and Qadirpur fields and natural decline in some of mature crude oil producing fields were other contributing factors which negatively impacted the Company's production.

OGDCL is presently operating a total of forty six (46) Development and Production (D&P) Leases which include both owned and operated JV fields. During the year 2011-12, the Company's average daily net production including share in both operated and non-operated JV fields is as under:

Products	FY 2011-12	FY 2010-11	Percentage (%) Change
Crude Oil (barrels per day)	37,615	37,370	0.7
Gas (MMcf per day)	1,091	1,013	7.7
LPG (M. Tons per day)	205	195	5.1



Recently installed gas processing facilities at Nashpa field.

During the period under review, the Company successfully completed the Phase-I of the KPD-TAY development project leading to production of 1,500 barrels of crude oil per day, 110 MMcf of gas per day and 140 M. Tons of LPG per day by using its indigenous resources. During completion of the KPD-TAY Phase-I, the Company installed/commissioned a gas de-hydration plant and wellhead facilities at seven (07) wells at Kunnar. In addition, OGDCL, prior to its committed schedule, laid down pipeline from Kunnar wells to plant resulting in supply of around 110 MMcf of dehydrated gas per day to M/s Sui Southern Gas Company Limited (SSGCL) and 1,500 barrels of condensate per day during the start of third quarter of the current financial year. Furthermore, the injection of gas into M/s Jamshoro Joint Venture Limited (JJVL) plant has also started for the extraction of LPG and Natural Gas Liquids (NGL).

During the year 2011-12, performance test of fourteen (14) compressors installed at Qadirpur were successfully undertaken during ATA. In addition, workover jobs on twelve (12) wells were also carried out during the reporting period.

During the year under review, the Company carried out Acid stimulation jobs at Qadirpur wells namely Qadirpur-21, 32-A, 41, 42, 43, 45 and Maru South-1

leading to increase in gas production by 80 MMcf per day. Similarly, Acid stimulation/nitrogen kick-off/surface well testing was carried out at Dakhni and Rajian wells. Additionally, Pressure survey campaign was conducted at different wells located at Chanda, Mela, Dakhni, Chak Naurang and Rajian oil fields with the aim to induce improvement in their flowing parameters.

Beside the above mentioned efforts to augment Company's oil and gas reserves and production base, OGDCL also brought several wells on production including Naspha-2, Mela-3, Rajian-6 and Dhodak Deep-2A. Of these wells, Naspha-2 is contributing around 6,000 barrels of crude oil per day and 20 MMcf of gas per day while Mela-3 and Rajian-6 are contributing 480 barrels per day and 650 barrels per day of crude oil respectively. Dhodak Deep-2A has also been injected into the gas gathering system adding 1.7 MMcf of gas per day and 50 barrels of crude oil per day to the Company's production base. Furthermore, the reverse circulation job undertaken at Chak Naurang-1A resulted into restoration of production by 50 barrels of crude oil per day.

Moreover, during 2011-12, the supply of low BTU gas from Nandpur/Punjpri/Bahu gas fields to M/s Fauji Kabirwala Power Company Limited (FKPCL) was successfully enhanced from 47 to 54 MMcf per day after laying of permanent 10" pipe line over river Chenab and injection of Bahu-4 well.

### Development Projects

Currently, the development work on KPD-TAY, Qadirpur compression project, Sinjhor, Uch-II, Dakhni Expansion, Jhal Magsi and Nashpa/Mela development projects is being carried out at vigorous pace for their timely completion. Upon completion of these on-going development projects, substantial enhancement of oil, gas and LPG production is expected in the near future.

#### KPD-TAY Development Project

The KPD-TAY integrated development project is located adjacent to existing Kunnar LPG plant in district Hyderabad of Sindh province.

OGDCL has planned to complete the KPD-TAY development project by itself in two phases. In this regard, OGDCL has successfully completed Phase-I of KPD-TAY development project and has started supplying around 110 MMcf dehydrated gas per day to M/s SSGCL and 1,500 barrels per day of condensate from its seven (07) Kunnar wells. Furthermore, the injection of gas into Jamshoro Joint Venture Limited (JJVL) plant has been started from 11 February 2012 for LPG and NGL extraction on a processing-fee basis.

The Company is in the process of installing /commissioning of plant/equipment comprising mainly of wellhead facilities, gas gathering system, CO<sub>2</sub> removal unit, LPG extraction, feed/sales gas compressors, power generation, allied utilities and offsite etc. Upon completion of Phase-II of the project, the field will



Qadirpur gas plant located at district Ghotki, Sindh.



Chanda plant located at district Kohat, KPK.

produce a total of 225 MMcf of sale gas per day, 5,100 barrels per day of condensate/oil/NGL and 410 M. Tons per day of LPG from 29 wells of KPD-TAY by February 2014.

The Company is also looking into options to engage a contractor for sweetening of sour gas and LPG/NGL extraction on rental basis till such time the Phase-II of KPD-TAY development project is brought on stream. In this regard, technical evaluation of the bids is in progress. OGDCL is, meanwhile, making arrangements for connecting the adequate number of wells, as well as shifting of dehydration plant from Pirkoh to KPD for supply of dehydrated gas. Through this system, OGDCL shall be able to supply another 125 MMcf of dehydrated gas per day by March 2013.

#### Sinjhor Development Project

The Sinjhor development project is located near district Sanghar, Sindh province. The Management has decided to develop the field by using in-house resources. Dhodak plant will be relocated to Sinjhor along with installation of some new units such as amine unit, feed/sales gas compressors, sales gas metering skid etc.

Construction activities and civil foundation work on Sinjhor development project are currently in progress and is about 63% complete, whereas, erection works of relocated skids is 76% complete. Phase-I of the project is expected to be completed by September

2012 with an estimated production of 16 MMcf per day of sales gas, 1,400 barrels per day of crude oil and 50 M. Tons per day of LPG. Additional production of 9 MMcf of gas per day, 1,600 barrels per day of crude oil and 70 M. Tons per day of LPG is expected on the completion of Phase-II of the project. In total, around 3,000 barrels per day of crude oil, 25 MMcf of gas and 120 M. Tons per day of LPG will be realized by May 2013.

#### Uch-II Development Project

The Uch gas field is located about 67 Kms South East of Dera Bugti in Balochistan province. During the period under review, five (05) additional development wells namely Uch-19, 27, 28, 32 and 33 were successfully drilled and completed resulting in completion of the drilling phase of fifteen (15) planned wells for Uch-II development project. Engineering consultant for design and engineering work has been engaged and detailed survey of flow lines, plant area and soil investigation has been completed. Contracts of amine, dehydration plant, sales gas metering skids & gas chromatographs, fire water pumps, fire fighting equipments, telemetry & SCADA system, power generation system, oily water package and integrated control system have been awarded. Uch-II development project is expected to be completed by February 2014 enabling OGDCL to put on stream another 160 MMcf of gas per day to M/s Uch-II Power Limited which will be utilized for power generation purposes.

### Dakhni Expansion Project

The project is located in district Attock, Punjab province. Most of the equipment/packages have been installed under Dakhni expansion project and production from the field has been increased to 52 MMcf of gas per day. All the equipment/vessels of Sulphur Recovery Unit (SRU) have been installed and commissioning has been started.

### Jhal Magsi Development Project

Jhal Magsi gas field is located in district Jhal Magsi, Balochistan province and is a JV among OGDCL, Government Holdings Private Limited (GHPL) and Pakistan Oilfields Limited (POL) having working interest ownerships (WIO) of 56%, 20% and 24% respectively, with OGDCL serving as the operator. The Jhal Magsi development project is under implementation for which press tender in connection with the processing facilities have been issued. M/s SSGCL will lay down 85 Kms of gas pipeline and the project is anticipated to be completed by December 2013 leading to an expected production of 15 MMcf of gas per day.

### Qadirpur Compression Project

OGDCL is the operator of Qadirpur gas field which is located in district Ghotki, Sindh province. In order to arrest the natural decline in reservoir pressure and maintain the production plateau at Qadirpur field, the Company as a first step has successfully installed and commissioned fourteen (14) reciprocating compressors. Subsequently, the Company is in the process of relocating three (03) turbine driven compressor trains from Pirkoh gas plant. At present two (02) compressor trains have been shifted and installation activities are in progress. The contract for "Installation, Commissioning & Start-up Assistance" has been awarded and the project is expected to be completed by December 2012.

### Nashpa and Mela Development Project

Nashpa and Mela fields are located in Karak & Kohat districts of Khyber Pakhtunkhwa province respectively. OGDCL is the operator of these fields while other partners are PPL and GHPL. The Nashpa and Mela development projects are currently under engineering phase for installation of LPG plant and compression facilities.

Nashpa development project is expected to be completed by January 2014 and is anticipated to produce 70 MMcf of gas per day, 16,000 barrels per day of crude oil and 257 M. Tons per day of LPG while Mela development project is expected to be completed

by December 2013 and upon its completion, production of 16 MMcf of gas per day, 7,500 barrels per day of crude oil and 87 M. Tons per day of LPG is expected. Engineering Consultant for both the projects has been engaged.



Mela gas processing facilities adjacent to Chanda gas & LPG plant.

## Non-Operated Joint Ventures

### TAL Concession

TAL Block is located in Khyber Pakhtunkhwa province and spreads over Karak, Kohat and Bannu areas. Petroleum exploration license of TAL concession was awarded on 11 February 1999 to M/s MOL Pakistan (operator) along with OGDCL, PPL and GHPL over an area of 4,643.48 Sq. Kms. Subsequently, consortium was joined by M/s POL on 08 October 2001. OGDCL holds 30% pre-commercial and 27.76% post commercial interest in this concession. The discoveries accredited to TAL concession to-date include Manzalai, Makori, Mamikhel, Maramzai, Makori East and Tolanj. At present, production from TAL block is around 310 MMcf of gas per day and 9,400 barrels of crude oil / condensate per day which is being sold to M/s SNGPL and M/s ARL, respectively.



During the year under review, TAL JV partners made a significant oil & gas discovery namely Makori East-2 at TAL concession. The well has been tested to flow at 4,900 barrels of condensate per day and 17.3 MMcf of gas per day from Lockhart, Lumshiwal and Hungu formations. Appraisal program for Makori East has been approved and Extended Well Testing (EWT) production from Makori East-2 is expected to commence in September 2012.

As part of appraisal program the drilling of Mamikhel-2 and Maramzai-2 wells is currently in progress. Appraisal program over Tolanj discovery has been approved by the Government and JV partners are currently executing the appraisal program. Production of 53 barrels of condensate per day and 10 MMcf of gas per day from Tolanj X-1 well is expected to start in the fourth quarter of 2012-13. Besides this, development well Manzalai-9 was also drilled and successfully completed leading to production enhancement of 950 barrels of condensate per day and 25 MMcf of gas per day and regular production is expected to start after completion of tie-in activity by October 2012.

During 2011-12, acquisition of 205 L. Kms of 2D seismic data over Mamikhel East & Malgin leads has been completed and processing is in progress. While 3D seismic data acquisition of about 555 Sq. Kms over Tolanj Anticlinorium is currently in progress. In addition to above, TAL JV partners have successfully completed the workover of Makori East-1 and the well has been put on production with effect from May 2012.

#### **Kadanwari, Bhit & Badhra Fields**

Kadanwari gas field is located in district Khairpur, Sindh province while Bhit and Badhra are located in district Dadu, Sindh province. M/s ENI is operator of these fields and OGDCL has a working interest of 50% in Kadanwari and 20% each in Bhit and Badhra D&PLs, respectively.

During the year under review, three (03) wells with combined potential of 70 MMcf of gas per day were successfully drilled and brought on production in Kadanwari field. In Badhra field, JV partners approved the final locations of two wells. In addition, a successful workover of Bhit well resulted in increased gas rate from 9 MMcf of gas per day to 31 MMcf of gas per day.

The Bhit plant, during 2011-12, achieved highest ever daily production of 355 MMcf of gas whereas successful

production optimization interventions resulted in addition of 44 MMcf of gas per day in Bhit and 18 MMcf of gas per day in Kadanwari field.

During the year under review, average sales gas from Kadanwari is 96 MMcf per day while average sales gas from Bhit field is around 374 MMcf per day in addition to production of 288 barrels of condensate per day. Badhra field is contributing around average production of 26 MMcf of gas per day.

#### **Miano D&PL**

Miano gas field is located in district Sukkur, Sindh province and operated by M/s OMV Pakistan Limited and OGDCL, ENI & PPL are JV partners in the lease. The field was discovered in 1993 and brought on production in 2001. During the year under review, Miano-15 was successfully drilled and completed. Miano field's average production is 85 MMcf of gas per day during 2011-12.

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

Badin fields are located in district Badin, Sindh province and are operated by M/s United Energy Pakistan Limited (UEPL). OGDCL holds 49%, 24% & 15% working interest in Badin-II, Badin-IIR & Badin-III fields respectively. Average production from Badin fields is 1,938 barrels per day oil/condensate and 30 MMcf of gas per day during 2011-12. The JV partners during the year 2011-12 drilled three (03) wells contributing 560 barrels per day of oil. In addition, the partners also plan to drill seven (07) more wells anticipating production of 1,435 barrels per day of oil and 19 MMcf of gas per day.

#### **Dhurnal, Bhangali & Ratana Fields**

Dhurnal, Bhangali and Ratana fields are located in district Attock and Rawalpindi in Punjab province. These fields are operated by M/s Ocean Pakistan Limited (formerly Orient Petroleum International Inc.), while OGDCL holds 20%, 50% and 25% working interest in these fields respectively. The current production of Dhurnal field is 166 barrels per day of oil and 0.78 MMcf of gas per day while Ratana field is currently producing 680 barrels per day of condensate, 16 MMcf of gas per day and 19 M. Tons of LPG per day.

Currently Ratana-4 well is under drilling and increase in production is expected on up-gradation, installation and commissioning of amine plant by fourth quarter of 2012 whereas, pipeline project has already been completed.

### Badar Field

Badar gas field is located in Kashmore, Sukkur & Ghotki, Sindh province and operated by M/s Petroleum Exploration (Pvt.) Limited, while OGDCL holds 50% working interest. Currently, the field is producing on average 14 MMcf of gas per day which after processing is being supplied to M/s SNGPL. Based on the results of regular periodic pressure surveys and G&G work, the Badar JV has planned to drill another development well during the year 2012-13 to further enhance the production.

### Adhi D&PL

Adhi oil field is located in Rawalpindi district and operated by M/s PPL while OGDCL has 50% working interest. During the year under review, average oil / condensate, gas and LPG production from the field is 5,767 barrels per day, 36 MMcf per day and 120 M. Tons per day respectively.

### Pindori D&PL

Pindori field is located in district Chakwal, Punjab province and operated by M/s POL wherein OGDCL holds 50% share. Current average production from Pindori field is 633 barrels of crude oil per day, 1.77 MMcf of gas per day and 12 M. Tons of LPG per day.

### Sara & Suri Fields

Sara & Suri fields are located in district Ghotki Sindh wherein OGDCL holds 40% working interest. Both fields are currently shut-in to evaluate any leftover reserves. Recently the GOP has approved transfer of operatorship of these fields from M/s Tullow Pakistan to M/s Spud Energy which is under process to complete requisite formalities.

## Awards Conferred

### Best Corporate Report Award

OGDCL's Annual Report for the year ended 30 June 2010 was selected by the Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) for the nomination of Best Corporate Report Award. OGDCL's Annual Report ranked third in the fuel and energy sector securing Best Corporate Report Award for the fifth consecutive year.

The selection of Best Corporate Award was based on comprehensive criteria, which requires inclusion of detailed information in the Annual Report on the subjects of corporate objectives, Directors' Report, disclosures,



Mr. Muhammad Rafi, CFO, receiving Best Corporate Report Award on behalf of OGDCL.



shareholders information, report presentation and corporate governance.

### CSR National Excellence Award

OGDCL won the sixth National Excellence Award 2011. The award was given to the Company in appreciation and recognition of its services and overall performance in corporate social sector. The Company won this award two times in a row.

The above Award is presented to environment friendly and socially active and responsible companies in Pakistan. The award recognizes and promotes social development and activities that make an outstanding contribution to sustainable development and help to achieve economic and social prosperity without degrading the environment and damaging the natural resources.

### Environmental Excellence Award

The year 2011-12 again proved to be a successful year for the Company as OGDCL won yet another 9<sup>th</sup> Annual Environment Excellence Award (AEEA). The AEEA is designed to recognize and promote the organizations which make an outstanding contribution to sustainable development. The award aims to highlight policies, practices, processes and products from all sectors of business in the Country, which help achieve economic and social development without detriment to the environment and natural resources.

### Board of Directors

The Board of Directors comprises twelve Directors including the Chairman and MD & CEO. During the year under review, composition of the Board changed as under:

Mr. Masood Siddiqui was appointed as MD & CEO on 18 June 2012 in place of Mr. Basharat A. Mirza.

Ch. Muhammad Shafi Arshad was appointed as Chairman Board on 25 July 2012 in place of Mr. Muhammad Ejaz Chaudhry.

Consequent upon transfer of Mr. Ahmad Bakhsh Lehri as Chief Secretary Balochistan, Mr. Babar Yaqoob Fateh Muhammad was appointed on the Board as Director. Further, M/s Mohomed Bashir, Iskander Mohammed Khan, Mohamed Anver Ali Rajpar, Sheraz Hashmi and Raza Ullah Khan were appointed on the Board as Directors in place of M/s Syed Amir Ali Shah, Dr. Kaiser Bengali, Tariq Faruque, Wasim Zuberi and Mr. Raashid Bashir Mazari.

The Board welcomed the new board members and recorded its appreciation for the professional acumen, contribution and services rendered by the outgoing Chairman, MD & CEO and Directors during their tenure.

The present Board of Directors comprises of the following:

1. Ch. Muhammad Shafi Arshad	Chairman
2. Mr. Masood Siddiqui	MD & CEO
3. Senator Mir Wali Muhammad Badini	Director
4. Mr. Babar Yaqoob Fateh Muhammad	Director
5. Mr. Abid Saeed	Director
6. Syed Masieh-ul-Islam	Director
7. Mr. Fahd Shaikh	Director
8. Mr. Mohomed Bashir	Director
9. Mr. Iskander Mohammed Khan	Director
10. Mr. Mohamed Anver Ali Rajpar	Director
11. Mr. Sheraz Hashmi	Director
12. Mr. Raza Ullah Khan	Director

### Meetings of the Board

Eight meetings of the Board of Directors were held between 01 July 2011 to 30 June 2012 and the attendance of each Director is given below:

Sr. No.	Name of the Directors	Total No. of Meetings*	Meetings Attended
1	Mr. Muhammad Ejaz Chaudhry	8	6
2	Mr. Basharat A. Mirza	6	6
3	Senator Mir Wali Muhammad Badini	8	7
4	Syed Amir Ali Shah	8	5
5	Mr. Ahmed Bakhsh Lehri	8	4
6	Mr. Raashid Bashir Mazari	6	5
7	Mr. Babar Yaqoob Fateh Muhammad	2	1
8	Mr. Abid Saeed	5	5
9	Dr. Kaiser Bengali	8	5
10	Mr. Wasim A. Zuberi	8	7
11	Mr. Tariq Faruque	8	1
12	Syed Masieh-ul-Islam	8	7
13	Mr. Fahd Shaikh	8	3
14	Mr. Masood Siddiqui	1	1

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

### Committees of the Board

In order to ensure effective implementation of sound internal control system and compliance with the Code of Corporate Governance, the Board has constituted various committees. Composition of committees and their Terms of Reference (TOR) are shown on page 22 of the Annual Report 2012.

### Investor Relations (IR)

OGDCL's IR function encompasses a broad range of activities through which the Company communicates with its current and potential stakeholders. The single most pivotal element of OGDCL's IR programme is to keep the market informed of all material information (which may influence the share price of the Company) relating to the Company by timely broadcasting the same utilizing various communication channels available to the Company.

The broader aim of OGDCL's IR programme is to provide investors and other audiences with a clear, honest, timely and accurate picture of the Company's past performance and its prospects for the future. OGDCL do realize that both our existing and potential stakeholders are interested in having access to strategic

and operational information that help them charter how the Company might perform going forward.

### Corporate Governance

The Company is committed to high standards of corporate governance to ensure business integrity and upholding the confidence of all the stakeholders. The Board of Directors is accountable to the shareholders for good corporate governance. The Management of the Company 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 Exchanges, which clearly defines the role and responsibilities of the Board of Directors and the Management. Vision & Mission statements, Core values and Code of Conduct have been prepared and approved by the Board. Significant policies as required under the Code of Corporate Governance have been framed and are under review of the Board.

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

- 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 Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in the preparation of financial statements and any departure therefrom has been adequately disclosed.
- 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 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.
- Information about outstanding taxes and levies is given in the notes to the financial statements.
- Value of investments, including bank deposits, of various funds based on the latest audited accounts as of 30 June 2011 are as follows:
  - Pension & Gratuity Fund Rs 16,968 million
  - General Provident Fund Rs 2,260 million

### Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s M. Yousaf Adil Saleem & Co., Chartered Accountants have completed their assignment for the year ended 30 June 2012 and shall retire on the conclusion of 15<sup>th</sup> 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 2012-13. The Board of Directors also endorsed the recommendations of the Audit Committee.

### Pattern of Shareholding

The pattern of shareholding as on 30 June 2012 is shown on the page 58 of the Annual Report 2012.

### Internal Control and Audit

OGDCL has an independent Internal Audit Department. The scope and role of the Internal Audit Department has been duly approved by the Board. This role corresponds to the responsibilities envisaged for the internal audit function under the Code of Corporate Governance. The Head of Internal Audit Department is functionally reporting directly to the Audit Committee of the Board. The Audit Committee comprises six Non-Executive Directors.

The internal audit function is serving as an effective appraisal of internal controls which are meant to have methods and measures in place to safeguard the assets, monitoring compliance with the best practices of corporate governance, check the accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. The functions of Internal Audit Department include:

- Independent assurance that controllable business risks are managed with effective control and 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.
- Follow up the implementation of agreed actions.
- Advise Management on the 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 special audit and investigations as and when required by the Audit Committee and the Management.

## Human Resource (HR)

Employees are vital and key resource of the Company. OGDCL being an industry leader has taken concrete steps in the area of employee management and HR practices. The Company is actively involved in the management of employees and has established a favorable work environment that encourages innovation and proficiency. A scalable recruitment and human resource management process exists in the Company which helps to attract and retain high-caliber employees.

As of 30 June 2012, Company's manpower strength comprised a total of 10,403 employees working at Head Office, regional offices, field locations and other operational areas in the Country. The workforce is highly motivated towards achievement of the goals and objectives of the Company in line with Vision and Mission statements.

HR Department at OGDCL is prudently involved in performing the key responsibilities of recruitment, selection, placement, establishing a learning culture, compensation determination, performance & appraisal reviews, designing job specifications and career advancement. In addition, the department is also contributing effectively towards productivity and capacity enhancement of employees on account of innovative changes in the performance management and evaluation process. HR values including recognition, promotions, appraisal and succession planning for employees are given due consideration at OGDCL and are linked with the performance management and appraisal process.

Management relations with all the employees of the Company including the Collective Bargaining Agent (CBA) continue to be friendly and industrial peace prevailed at all locations during the year under review.

## Corporate Social Responsibility (CSR)

CSR at OGDCL means extending a helping hand to communities lagging behind and showing due concern for people and the environment in which the Company operates. The Company endeavors to be a responsible corporate citizen, being aware of its social obligations, it continues to proactively promote, develop and maintain medical, social and welfare facilities for the benefit of the local communities. The Company fulfills its obligations by the way of investment in the areas of education, health, water supply, infrastructure and financial sharing for gas supply. Furthermore, OGDCL also gives donations and undertake poverty alleviation efforts for



Mr. Nadeem A. Ansari, GM (HSEQ) receiving 9<sup>th</sup> Annual Environment Excellence Award 2012

marginalized communities to improve their quality of life.

OGDCL not only paves the way for progress and prosperity of the communities affected by its work and presence, but while doing so, is also aware of and observe local traditions and ethnic practices out of mutual respect for social and cultural differences.

## Training and Development

As a leading Exploration & Production Company of Pakistan, OGDCL is committed towards professional grooming of its human resource. The objective of continuous training and development of these professionals is achieved through Oil and Gas Training Institute (OGTI). OGTI works closely with various departments of OGDCL and other E&P companies to help meet their training requirements. The training programs are developed and delivered by renowned trainers from within OGDCL as well as experts from the local and foreign petroleum industry. In addition to technical training, the Institute also imparts education and training in Health, Safety & Environment (HSE), Information Technology (IT) and Petroleum Management (PM).

During the year 2011-12, a total of 73 training programs were conducted by OGTI. Most of these programs were arranged at OGTI whereas some were organized at fields to facilitate the participants. More than 850 professionals from OGDCL and other E&P companies benefited from these programs. These programs included courses on technical subjects such as HSE, IT and PM.

A special lecture on "Chemical Characteristics and Treatment of Flow Back and Produced Waters at Oil and Gas Exploration Sites" was arranged at OGTI on 30 March 2012. Dr. Somnath Basu, PhD, PE, BCEE delivered the lecture.

In addition, 120 professionals attended workshops, seminars, conferences & training programs at PIM, LUMS, IBA, SPE, etc. About 50 professionals were sent abroad for foreign trainings/visits.

## Health, Safety, Environment & Quality (HSEQ)

OGDCL has always contributed to the betterment of environment and for the welfare of the people of the area it operates in. The contemporary solutions and modern processes are being carried out which show sustainability towards protection of the environment, our workforce and assets. On the more visible side, plantation of trees in the Company's operating areas is a routine measure to compensate for the emissions that are produced during its operations carried out in the fields. Similarly, our establishments and premises at various locations vis seismic parties, drilling rigs,



Chanda gas processing & LPG extraction plant.



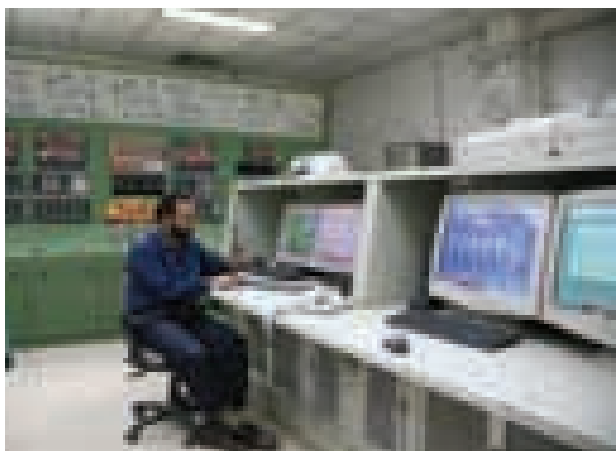
production facilities, processing plants, engineering departments, etc. exhibited the salient features of HSEQ system.

### Information Technology (IT)

As part of new technology initiative, Windows-based Petrel Software suite of applications is being acquired for Reservoir Management and Exploration groups. The software suite consists of integrated applications for G&G and Reservoir Engineering. The software has the capability to aggregate reservoir data from multiple sources and help design development strategies to maximize reservoir exploitation. Acquisition of state-of-the-art hardware (workstations) for running these applications is also a part of the initiative. As a technology up-gradation plan, about 600 old PCs and laptops were replaced with the new machines.

Technology based governance has become a major requirement in today's corporate world. An initiative has been taken to implement an Access Control System (ACS) together with a Time Attendance system. The intended (RFID and biometric based) system will fulfill needs of the security, surveillance and time and attendance logging. The system will also be integrated with existing Human Resource System.

Information Security Policies developed for the Company through an expert consultant firm were got approved from the Board of Directors. The purpose of these policies is to adopt international best practices related to Information Security based on International Information Security Standard - ISO-27001. As part of the implementation of these Policies, necessary training programs will be conducted for the personnel at various levels.



### Business Risks and Challenges

In the uncertain financial and economic environment, the Company is exposed to various risks which may have potential impact on the operational and/or financial performance of the Company.

The Management and the Board of Directors of the Company are cognizant of their responsibilities and ensure that the Company's risk management system properly identifies and provides timely response to the emerging risks. Any failure of this system could lead to the occurrence, or re-occurrence, of any of the risks described below and a consequent material adverse effect on Company's business, financial position, operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda.

Key operational and non-operational risks including strategic and commercial risks, along with mitigating techniques are outlined below:

#### Strategic Risk

Strategic risk is the current and prospective impact on Company's earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Successful execution of the Company strategies operating in E&P industry depends on implementing activities to renew and reposition portfolio. The challenges to renewal of upstream portfolio are growing due to increasing competition for access to opportunities among oil & gas companies and heightened political and security situations in certain parts where significant hydrocarbon reserves may be located.

The diverse locations of the OGDCL's business around the Country expose it to wide range of challenges and opportunities. To counter the risk of the strategic failure, the Company has well equipped Strategic Plan in hand which is developed on a five-year basis and updated/ revised on yearly basis. The Strategic Plan contains an objective analysis of the Company's targets and strategies along with identification of threats and opportunities which may have potential effect on exploring new opportunities, meeting shareholder expectations and delivering long term growth.

### Commodity Price Risk

OGDCL's financial results correlate closely to the prices it obtains for its petroleum products. Crude oil prices in Pakistan are linked to a basket of Middle East crude oil prices adjusted for yield differential and freight according to a specified formula. The Company is exposed to fluctuations in international prices of crude oil and other petroleum products, prices of which are determined by reference to the international market prices. International oil prices are volatile and are influenced by global as well as regional supply and demand conditions. This volatility has significant impact on the Company's net sales and net profit.

While the prices are generally beyond the Company's control, however, gas sales which is a major component of Company's revenue is less prone to this risk as the gas prices of certain fields including Qadirpur, Uch, Dakhni, Bahu, Pirkoh, Loti etc is capped at fixed crude oil/HSFO price and is affected only in case the international crude oil/HSFO prices fall below the capped price.

### Exchange Rate Risk

OGDCL's reference oil prices are quoted in US dollars on a weekly basis; while gas prices are notified on a six-month basis. The gas prices which are determined on pre-1994 pricing formulae are notified in Pak Rupees, whereas, gas prices determined on post-1994 pricing formulae are notified in US\$. Oil and gas prices notified in US dollars are translated into Rupees using exchange rates established by the regulatory authority on various reference dates stipulated in the relevant sales agreements. Because its reporting currency is the Pakistani Rupee and the Company receives oil and gas revenues in Rupees, therefore, Rs/US\$ parity decline has a positive impact on Company's earnings and vice versa.

Approximately 70% of the material and equipment the Company purchases and 3<sup>rd</sup> party services it acquires are denominated in currencies other than the Pakistani Rupee, primarily US\$, Euro and Pound Sterling. However, any exposure to foreign currency exchange risk arising from these payment obligations is neutralized by the natural hedging provided by the OGDCL's pricing mechanism described above. The effect of exchange rates on transactions in foreign currencies is included in the periodic income.

### Exploration and Drilling Risks

Exploration risks include selection of incorrect exploration acreage, inaccuracies in acquisition, processing, interpretation of seismic data and selection of exploratory well site. The Company is exposed to variety of hazards during the drilling process including well blowout, fishing, fire and other safety hazards. There is always a risk of failure in drilling exploratory wells. Risk of un-successful drilling has an adverse effect on Company's earnings and growth. Though this risk is reduced in case of development fields, expertise in reservoir engineering is in place to manage this risk. The Management is well aware of these risks and is taking into consideration these facts while planning and executing the exploration and drilling targets. The Company is also utilizing experienced professionals and latest technologies in selection of acreage, acquisition and processing of seismic data etc.

### Credit Risk

Credit risk is the potential exposure of the Company to losses in case counter parties fail to perform or pay amounts due. The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of trade debts. Significant trade debts are owed by local crude oil refineries and natural gas distribution companies to which the Company supplies oil and natural gas products respectively. Settlement of such amounts has been delayed because debts owed to the refineries and natural gas companies in respect of products supplied by them to the Government related entities also remain unpaid due to non-availability of funds. This is termed as "Inter Corporate Circular Debt" issue.

A committee under the chairmanship of the Secretary Finance, Government of Pakistan, has been formed to review and settle the circular debt issue. In addition, the Government has confirmed to OGDCL in writing that circular debt outstanding will be settled in full and that steps are being taken to resolve the issue of circular debt as a matter of priority.

### Environmental Risks

The Company is not insured against all potential losses and may be seriously harmed by natural disasters or operational catastrophes. The occurrence of events such as earthquakes, hurricanes, floods, blowouts, fires, explosions, equipment failure and other such



events that cause operations to cease or be curtailed, may negatively affect OGDCL's business and the communities in which it operates. These risks are addressed by the Management while making investment decisions, planning and executing the Company's exploration and development plan.

### Competitive Risk

Results of operations, reserves replacement and growth in oil and gas production depend, in part, on OGDCL's ability to profitably acquire, develop or find additional reserves. Competition for reserves makes it difficult to find attractive investment opportunities or result in delay of replacement efforts.



The Government of Pakistan has taken steps to liberalize the E&P sector in Pakistan, particularly the application and award of exploration concessions, which is done on competitive basis. However, in case of increased exploration activity in the future, the Company may be exposed to greater competition, from both local and international E&P companies, while pursuing the acquisition of additional exploration concessions.

### Security Conditions

Security concerns in shape of armed conflict, terrorism, insurgency and political instability constitute security risk and adversely influence the Company operations causing risk of loss or production limitations, threat to the lives of the workers performing duties in these affected operational areas etc.

Exposure to such risks act as an impediment in the smooth running of the Company operations particularly in the provinces of Khyber Pakhtunkhwa and Balochistan. This is potentially detrimental as Company's exploration, drilling and development activities are hampered due to unfavorable security situation resulting in affecting the Company's sustainable growth.

The Management of the Company is well aware of these issues and a complete set-up for handling security situation is working in the Company. A strategy has been developed by the Company to avoid disruption at all the sites of the Company's operations.

### Commercial Risk

Calculations of oil and gas reserves depend on estimates concerning reservoir characteristics and recoverability, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. The commercial risk associated with the reserves is that the actual quantity of recoverable reserves may be different from the estimated proven and probable reserves.

Keeping in view the volatile nature of reserves, the Company contracts out reserve evaluation study after every three years, the results of which are then compared with the in-house results for verification/up-dation of the Company's reserves. OGDCL had a reserves evaluation study done in 2010 by a third party namely M/s Tracs International, UK. In light of the findings from the said study, the Company's reserve position has been adjusted/updated accordingly.

### Management Objectives and Strategies

The Company's continued success confirms the effectiveness of its long term business strategy and its firm commitment to meet the targets and objectives laid out in the Strategic Plan which is developed on a five-year basis and updated/revised on yearly basis. The Company's prime objective is to contribute to E&P sector to help enhance energy security of Pakistan while generating future value for its stakeholders. OGDCL aims to achieve these objectives by relying on its core values which are merit, teamwork, dedication, integrity, safety and innovation.

The long term business strategy of the Company is designed to maintain emphasis on enhancing oil and gas reserves and production base while promoting future growth in a highly focused manner and through a concentrated set of assets. In this connection, the Company remains committed in applying latest techniques to boost production from its mature fields coupled with expediting efforts for completion of various development projects currently underway which on completion will lead to substantial enhancement in crude oil, gas and LPG production. Additionally, the



Company, with the use of its own resources, is vigorously involved in development of its shut-in/dormant fields which will also contribute in augmenting the Company's oil and gas output.

OGDCL, in line with its Vision, is on track to pursue new growth opportunities and on account of its strong technical expertise and financial strength is looking ahead towards formulation of JVs with leading E&P companies both within the Country and abroad.

### Future Outlook

The FY 2011-12 has been the year of Golden Jubilee Celebration for the Company as OGDCL has successfully completed fifty (50) years of its existence which is a special milestone in the journey of any organization.

At present, deficit of power and energy is one of the major national issues adversely impacting the economic growth of the Country. Being a state-owned entity, OGDCL is cognizant of its responsibility to play its part in meeting the growing demands of oil and gas in the Country. For this purpose, OGDCL is continuously engaged in making utmost efforts to explore new possibilities and drive functional excellence across the life cycle of exploration, development and production while continuing to focus on building technical capability for the future. In addition, the Company's Management is actively involved in expediting the completion process of the ongoing development projects namely KPD-TAY, Sinjhora, Dakhni, Uch-II, Jhal Magsi and Nashpa/Mela. The potential completion of the said development projects would lead to substantial enhancement in crude oil, gas and LPG production in the near future.

Looking ahead, the Company's business priorities and key areas of focus will continue to be shaped by an all-out push for reserves and volume growth, consistent with efforts to secure long term sustainability of its business. In addition, the Company aims at making all out efforts to explore new fields, develop already discovered fields on fast-track basis and seamless development of new discoveries in shortest possible time which will not only surge its oil and gas production but will also help to secure the energy security of Pakistan.

Through this single-minded pursuit for growth and performance excellence, OGDCL is forging ahead as an entity with clear strategic focus, determination and dynamic leadership and a strong workforce capable of

meeting new challenges and tasks. The current portfolio of assets places the Company in a unique position to undertake new development activities and projects enabling it to return significant value to its shareholders while respecting the environment and upholding high standards of social responsibility throughout its Country-wide operations.

### Acknowledgement

As we move forward, I am confident that the Company will successfully carry on the rising trend of profitability along with exhibiting improved operational and financial results in the coming years. Keeping in view the importance of energy and its role in the economic growth, OGDCL is on track to continuously explore new opportunities and meeting new challenges through its vision, commitment and best management practices.

By way of final note, I would like to state that the success and glory achieved by the Company is attributable to the resolute support and cooperation extended by MP&NR, Directorate General of Petroleum Concessions (DGPC) and other divisions & departments of Federal and Provincial Governments. I would like to place on record my sincere appreciation and gratitude to OGDCL's Board of Directors for their wise counsel, invaluable guidance and support for the Company. My sincere thanks are also due to the Management for its participative leadership style and to the Company employees for their hard work and relentless efforts which were instrumental in driving the solid operational and financial performance. Indeed, the Board acknowledges with thanks the continued support and patronage extended by all the stakeholders that has always given the Company confidence to achieve new milestones and looks forward to continue playing a leading role in the E&P industry of Pakistan in future and creating sustainable value for its shareholders while being a socially responsible corporate entity.

On behalf of the Board

09 August 2012  
Islamabad

(Ch. Muhammad Shafi Arshad)  
Chairman

# Pattern of Shareholding

As at 30 June 2012

Number of Shareholders	Shareholding		Total Shares held
	From	To	
1,334	1	100	56,605
9,548	101	500	4,549,648
6,341	501	1,000	6,195,475
3,893	1,001	5,000	8,390,688
475	5,001	10,000	3,546,175
251	10,001	20,000	3,613,058
96	20,001	30,000	2,428,626
37	30,001	40,000	1,299,586
25	40,001	50,000	1,115,427
36	50,001	75,000	2,186,028
20	75,001	100,000	1,824,886
23	100,001	150,000	2,872,394
13	150,000	200,000	2,156,124
19	200,001	250,000	4,246,941
2	250,001	300,000	553,101
6	300,001	400,000	2,158,483
9	400,001	500,000	4,228,497
6	500,001	600,000	3,273,153
14	600,001	700,000	9,186,758
3	700,001	800,000	2,258,179
3	800,001	900,000	2,630,018
2	900,001	1,000,000	1,902,980
12	1,000,001	1,500,000	14,105,670
8	1,500,001	2,000,000	13,577,749
3	2,000,001	3,000,000	7,525,183
11	3,000,001	5,000,000	41,458,902
3	5,000,001	8,000,000	18,156,497
-	8,000,001	9,000,000	-
-	9,000,001	10,000,000	-
1	10,000,001	25,000,000	15,599,386
2	25,000,001	50,000,000	62,054,391
1	50,000,001	100,000,000	52,154,549
-	100,000,001	300,000,000	-
2	300,000,001	500,000,000	781,014,162
1	500,000,001	4,000,000,000	3,224,609,081
22,200			4,300,928,400

## Categories of Shareholders

As at 30 June 2012

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Individuals	21,706	32,026,532	0.74
Investment Companies	7	646,253	0.02
Insurance Companies	12	17,019,982	0.40
Joint Stock Companies	129	1,445,750	0.03
Banks, DFIs, NBFIs	14	10,649,548	0.25
Modarabas and Mutual Funds	71	51,055,638	1.19
Foreign Investors	117	524,981,937	12.21
Cooperative Societies	1	3	0.00
Charitable Trusts	21	970,583	0.02
Others	120	5,334,054	0.12
OGDCL Employees Empowerment Trust	1	432,189,039	10.05
Government of Pakistan	1	3,224,609,081	74.97
<b>TOTAL</b>	<b>22,200</b>	<b>4,300,928,400</b>	<b>100.00</b>

Pattern of Shareholding	Number of Shareholders	Shares held	Percentage
<b>Associated Companies, Undertakings and Related Parties and Shareholders holding 10% and above shares</b>			
Government of Pakistan	1	3,224,609,081	74.97
OGDCL Employees Empowerment Trust	1	432,189,039	10.05
<b>NIT &amp; ICP</b>			
National Investment Trust Ltd (NIT)	1	688,944	0.02
National Bank of Pakistan Trustee Department	1	1,794,143	0.04
<b>Directors, Chief Executive Officer and their spouses and minor children</b>			
Executives	4	4,353	0.00
Investment Companies	7	646,253	0.02
Insurance Companies	12	17,019,982	0.40
Joint Stock Companies	129	1,445,750	0.03
Banks, DFIs, NBFIs	12	8,166,461	0.19
Modarabas and Mutual Funds	71	51,055,638	1.19
Foreign Investors	117	524,981,937	12.21
Cooperative Societies	1	3	0.00
Charitable Trusts	21	970,583	0.02
Individuals	21,702	32,022,179	0.74
Others	120	5,334,054	0.12
<b>TOTAL</b>	<b>22,200</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. Muhammad Shafi Arshad (Chairman Board) and his wife were purchased by them through Secondary Offering by the Government at the rate of Rs 110 per share and shares held by Mr. Aftab Ahmad, ex-Chief Financial Officer (and his wife) were purchased by them through Initial Public Offering (IPO) 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  
the 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's 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 Jan 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 30 June 2012.



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Engagement Partner: Riaz Pesnani

09 August 2012  
Islamabad



M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Engagement Partner: Nadeem Yousuf Adil

09 August 2012  
Islamabad

# Statement of Compliance

with the best practices of the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of listing regulations of Karachi, Lahore and Islamabad Stock Exchanges 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 CCG in the following manner:

1. The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	Ch. Muhammad Shafi Arshad Mr. Fahd Shaikh Mr. Mohomed Bashir Mr. Iskander Mohammed Khan Mr. Mohamed Anver Ali Rajpar Mr. Sheraz Hashmi Mr. Raza Ullah Khan
Executive Director	Mr. Masood Siddiqui
Non-Executive Directors	Senator Mir Wali Muhammad Badini Mr. Abid Saeed Mr. Babar Yaqoob Fateh Muhammad Syed Masieh-ul-Islam All Independent Directors are also non Executive Directors

The Independent Directors meet the criteria of independence under clause i (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a Director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or an Non-Banking Financial Institution (NBFI) or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurring on the Board were all filled up by the Directors within 90 days.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a Vision/Mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies 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 and terms and conditions of employment of the CEO, other Executive and non-Executive Directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged three training programs for its Directors during the year 2012.
10. The Board has approved appointment of CFO and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises six members, all of whom are non-Executive Directors and the Chairman of the Committee is an Independent Director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the Audit Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises six members, of whom five are non-Executive Directors and the Chairman of the Committee is a non-Executive Director.
18. 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.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, 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 (IFAC) guidelines on code of ethics as adopted by the ICAP.





20. 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.
21. The 'closed period', prior to the announcement of interim/final results and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to Directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with except for the Board Evaluation, towards which the Company will seek compliance by the end of next accounting year.

On behalf of the Board

(Ch. Muhammad Shafi Arshad)  
Chairman

09 August 2012  
Islamabad

# Auditors' Report to the Members

We have audited the annexed Balance Sheet of Oil and Gas Development Company Limited ("the Company") as at 30 June 2012 and the related Profit and Loss Account, Statement of Comprehensive Income, 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 purposes 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 mis-statement. 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 expenditures 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, Statement of Comprehensive Income, 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 2012 and of the profit, total comprehensive income, its cash flows 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.

We draw attention to Note 18.1 to the financial statements wherein it is stated that trade debts include an overdue amount of Rs 92,878 million receivable from oil refineries and gas companies. We also draw your attention to Note 16.3 to the financial statements wherein it is stated that long term receivable amounting to Rs 606.937 million has not been paid by Karachi Electric Supply Company Limited in accordance with settlement plan. Though the recovery of these debts have been slow due to circular debt issue, the Company considers the amount as fully recoverable for the reason given in the aforementioned notes. Our report is not qualified in respect of this matter.



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Engagement Partner: Riaz Pesnani

09 August 2012  
Islamabad



M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Engagement Partner: Nadeem Yousuf Adil

09 August 2012  
Islamabad

# Balance Sheet

As at 30 June 2012

	Note	2012 (Rupees '000)	2011
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	43,009,284	43,009,284
Capital reserves	5	4,906,000	4,059,138
Unappropriated profit		220,449,368	154,497,155
		<u>268,364,652</u>	<u>201,565,577</u>
<b>NON CURRENT LIABILITIES</b>			
Deferred taxation	6	23,545,773	20,786,195
Deferred employee benefits	7	4,623,153	3,301,169
Provision for decommissioning cost	8	17,193,813	14,348,981
		<u>45,362,739</u>	<u>38,436,345</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	22,171,851	16,794,297
Provision for taxation	10	2,421,831	4,981,309
		<u>24,593,682</u>	<u>21,775,606</u>
		<u><u>338,321,073</u></u>	<u><u>261,777,528</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11		

The annexed notes 1 to 41 form an integral part of these financial statements.



Chief Executive



		2012	2011
	Note	(Rupees '000)	
NON CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	12	40,966,441	39,146,582
Development and production assets - intangibles	13	64,671,505	58,926,897
Exploration and evaluation assets	14	10,406,156	7,961,197
		116,044,102	106,034,676
Long term investments	15	3,987,633	3,568,930
Long term loans and receivable	16	3,066,634	2,410,907
Long term prepayments		346,413	159,550
		123,444,782	112,174,063
CURRENT ASSETS			
Stores, spare parts and loose tools	17	12,860,723	13,979,854
Stock in trade		210,523	261,835
Trade debts	18	138,095,764	77,911,312
Loans and advances	19	5,604,976	2,738,873
Deposits and short term prepayments	20	984,796	640,229
Interest accrued		532,587	324,845
Other receivables	21	998,652	1,459,073
Other financial assets	22	51,820,581	38,445,555
Cash and bank balances	23	3,767,689	13,841,889
		214,876,291	149,603,465
		338,321,073	261,777,528

  
Director

# Profit and Loss Account

For the year ended 30 June 2012

		2012	2011
	Note	(Rupees '000)	
Sales - net	24	197,838,726	155,631,290
Royalty		(23,123,176)	(17,703,601)
Operating expenses	25	(34,379,542)	(32,997,860)
Transportation charges		(2,029,755)	(2,201,339)
		(59,532,473)	(52,902,800)
<b>Gross profit</b>		<b>138,306,253</b>	<b>102,728,490</b>
Other income	26	9,660,443	3,303,971
Exploration and prospecting expenditure	27	(4,047,774)	(6,621,705)
General and administration expenses	28	(2,200,313)	(2,233,672)
Finance cost	29	(1,718,651)	(1,484,781)
Workers' profit participation fund		(7,004,359)	(4,788,537)
Share of profit in associate - net of taxation	15.1	87,215	78,438
<b>Profit before taxation</b>		<b>133,082,814</b>	<b>90,982,204</b>
Taxation	30	(36,177,239)	(27,454,934)
<b>Profit for the year</b>		<b>96,905,575</b>	<b>63,527,270</b>
<b>Earnings per share - basic and diluted (Rupees)</b>	31	<b>22.53</b>	<b>14.77</b>

The annexed notes 1 to 41 form an integral part of these financial statements.

  
Chief Executive

  
Director



# Statement of Comprehensive Income

For the year ended 30 June 2012

2012                      2011

(Rupees '000)

## Profit for the year

Other comprehensive income - net of taxation

## Total comprehensive income for the year

96,905,575	63,527,270
-	-
<u>96,905,575</u>	<u>63,527,270</u>

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Executive

Director



# Cash Flow Statement

For the year ended 30 June 2012

	2012	2011
Note	(Rupees '000)	
<b>Cash flows from operating activities</b>		
Profit before taxation	133,082,814	90,982,204
Adjustments for:		
Depreciation	4,032,969	3,782,258
Amortization of development and production assets	9,571,159	12,081,914
Impairment on development and production assets	-	800,668
Royalty	23,123,176	17,703,601
Workers' profit participation fund	7,004,359	4,788,537
Provision for employee benefits	3,798,660	2,442,491
Un-winding of discount on provision for decommissioning cost	1,708,033	1,476,194
Interest income	(6,827,403)	(2,711,545)
Un-realized loss/(gain) on investments at fair value through profit or loss	8,536	(18,025)
Dividend income	(18,161)	(10,216)
Gain on disposal of property, plant and equipment	(36,023)	(29,869)
Effect of fair value adjustment of long term receivable	(1,673)	(13,536)
Provision for slow moving, obsolete and in transit stores	660,507	9,567
Reversal of provision for doubtful debts	(25,658)	(57,677)
Share of profit in associate	(87,215)	(78,438)
Stores inventory written off	-	1,318
	<b>175,994,080</b>	<b>131,149,446</b>
Working capital changes		
(Increase)/decrease in current assets:		
Stores, spare parts and loose tools	458,624	536,539
Stock in trade	51,312	(89,751)
Trade debts	(60,158,794)	5,138,656
Deposits and short term prepayments	(344,567)	(23,588)
Advances and other receivables	(3,525,558)	(1,112,321)
Increase/(decrease) in current liabilities:		
Trade and other payables	3,683,363	(705,249)
Cash generated from operations	<b>116,158,460</b>	<b>134,893,732</b>
Royalty paid	(21,549,678)	(29,863,444)
Employee benefits paid	(3,323,490)	(2,492,223)
Long term prepayments	(186,863)	(40,613)
Payments of workers' profit participation fund - net	(6,538,537)	(5,210,671)
Income taxes paid	(35,977,139)	(29,403,253)
	<b>(67,575,707)</b>	<b>(67,010,204)</b>
Net cash from operating activities	<b>48,582,753</b>	<b>67,883,528</b>
<b>Cash flows from investing activities</b>		
Capital expenditure	(21,009,714)	(18,092,965)
Interest received	6,619,661	2,448,532
Dividends received	61,673	44,658
Purchase of investments	(375,000)	(353,000)
Proceeds from disposal of property, plant and equipment	41,684	34,204
Net cash used in investing activities	<b>(14,661,696)</b>	<b>(15,918,571)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(30,611,695)	(18,660,181)
Net cash used in financing activities	<b>(30,611,695)</b>	<b>(18,660,181)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,309,362</b>	<b>33,304,776</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>52,141,519</b>	<b>18,836,743</b>
<b>Cash and cash equivalents at end of the year</b>	<b>55,450,881</b>	<b>52,141,519</b>

33

The annexed notes 1 to 41 form an integral part of these financial statements.

  
Chief Executive

  
Director



# Statement of Changes in Equity

For the year ended 30 June 2012

	Share capital	Capital reserves		Unappropriated profit	Total equity
		Capital reserve	Self insurance		
			(Rupees '000)		
Balance at 01 July 2010	43,009,284	836,000	3,023,682	110,523,520	157,392,486
Transfer to self insurance reserve	-	-	199,456	(199,456)	-
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	63,527,270	63,527,270
Total comprehensive income for the year	-	-	-	63,527,270	63,527,270
<b>Transactions with owners, recorded directly in equity</b>					
Final dividend 2010: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
First interim dividend 2011: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Second interim dividend 2011: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Total distributions to owners	-	-	-	(19,354,179)	(19,354,179)
Balance at 30 June 2011	43,009,284	836,000	3,223,138	154,497,155	201,565,577
Balance at 01 July 2011	43,009,284	836,000	3,223,138	154,497,155	201,565,577
Transfer to self insurance reserve	-	-	846,862	(846,862)	-
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	96,905,575	96,905,575
Total comprehensive income for the year	-	-	-	96,905,575	96,905,575
<b>Transactions with owners, recorded directly in equity</b>					
Final dividend 2011: Rs 2.50 per share	-	-	-	(10,752,321)	(10,752,321)
First interim dividend 2012: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Second interim dividend 2012: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Third interim dividend 2012: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Total distributions to owners	-	-	-	(30,106,500)	(30,106,500)
<b>Balance at 30 June 2012</b>	<b>43,009,284</b>	<b>836,000</b>	<b>4,070,000</b>	<b>220,449,368</b>	<b>268,364,652</b>

The annexed notes 1 to 41 form an integral part of these financial statements.

  
Chief Executive

  
Director

# Notes to the Financial Statements

For the year ended 30 June 2012

## 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 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.

## 2 BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the 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 MEASUREMENT

These financial statements have been prepared on the historical cost basis except for the following material items in the balance sheet;

- obligation under certain employee benefits, long term receivables and provision for decommissioning cost have been measured at present value; and
- investments at fair value through profit or loss have been measured at fair value;

The methods used to measure fair values are discussed further in their respective policy notes.

### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

### 2.4 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of these financial statements in conformity with the 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 year, or in the year of the revision and any future year affected.



# Notes to the Financial Statements

For the year ended 30 June 2012

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.

## 2.4.1 Property, plant and equipment

The Company reviews the useful lives and residual values of property, plant and equipment on the reporting date. 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 Exploration and evaluation expenditure

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure under the policy, a judgment is made that recovery of the expenditure is unlikely, the relevant capitalized amount is written off to the profit and loss account.

## 2.4.3 Development and production expenditure

Development and production activities commence after project sanctioning by the appropriate level of management. Judgment is applied by the management in determining when a project is economically viable. In exercising this judgment, management is required to make certain estimates and assumptions similar to those described above for capitalized exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced development activity, a judgment is made that a development and production asset is impaired, the appropriate amount is written off to the profit and loss account.

## 2.4.4 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 developed reserves, affect the amount of amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

## 2.4.5 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration cost of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of

# Notes to the Financial Statements

For the year ended 30 June 2012

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.

During the year, the 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 Interpretation-1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

Following line items would have been effected had there been no change in estimates:

	Rupees in million
Provision for decommissioning cost would have been lower by	502
Property, plant and equipment would have been lower by	864
Development and production assets would have been higher by	20
Amortization charge would have been higher by	342
Unappropriated profit would have been lower by	225

## 2.4.6 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 or service cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employees 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.

## 2.4.7 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 the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

## 2.4.8 Stores and spares

The Company reviews the stores and spares for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores and spares with a corresponding affect on the provision.





# Notes to the Financial Statements

For the year ended 30 June 2012

## 2.4.9 Provision against trade debts, advances and other receivables

The Company reviews the recoverability of its trade debts, advances and other receivables to assess amount of bad debts and provision required there against on annual basis.

## 2.5 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following approved accounting standards, interpretations and amendments to approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards, interpretations and the amendments 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 certain additional disclosures.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company's policy was to account for actuarial gains and losses using the corridor method and with the change, the net unrecognized actuarial gain amounting to Rs 5,303 million at 30 June 2012 would need to be recognized in other comprehensive income.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be

# Notes to the Financial Statements

For the year ended 30 June 2012

classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations.
- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendments in IAS 16 have no impact on financial statements of the Company.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.





# Notes to the Financial Statements

For the year ended 30 June 2012

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

### 3.1 EMPLOYEE BENEFITS

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of 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 as a defined benefit plan.

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

The Company also has a policy whereby all its employees are eligible to encash accumulated leave balance at the time of retirement in case of officers and at the time of retirement or during the service in case of staff.

The Company makes contributions or record liability in respect of defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried out as of 30 June 2012. 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 Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

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 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. Contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable, fair value of the benefit plans is based on market price information and 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 outside profit and loss account (whether in other

# Notes to the Financial Statements

For the year ended 30 June 2012

comprehensive income or directly in equity), if any, in which case the tax amounts are recognized outside profit and loss account.

## 3.2.1 Current tax

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, adjusted for payments to GoP for payments on account of royalty and any adjustment to tax payable in respect of previous years.

## 3.2.2 Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investment in jointly controlled entities to the extent that it is probable that they will not reverse in a foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the reporting date, adjusted for payments to GoP on account of royalty.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

## 3.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any except for 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. The cost of self constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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 life. 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.



# Notes to the Financial Statements

For the year ended 30 June 2012

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss account as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in profit or loss account.

Capital work in progress is stated at cost less accumulated impairment losses, if any, and is 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. The Company conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment. External factors such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated being 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## 3.4 OIL AND GAS ASSETS

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

# Notes to the Financial Statements

For the year ended 30 June 2012

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

Tangible assets used in E&E activities, 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 are not found, the capitalized costs are written off as dry and abandoned wells and charged to profit and loss account.

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 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 proved developed 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. Amortization is charged to profit and loss account.





# Notes to the Financial Statements

For the year ended 30 June 2012

## 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.

Liabilities for decommissioning cost are recognized when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. The Company makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfil the obligation of site restoration and rehabilitation. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the estimated cost of decommissioning, discounted to its net present value and the expected outflow of economic resources to settle this obligation is up to next twenty three 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 life 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 in the profit and loss account.

## 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 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 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.

# Notes to the Financial Statements

For the year ended 30 June 2012

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 associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate have been incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of investment. Losses of an associate in excess of the Company's interest in that associate (which includes any long term interest that, in substance, form part of the Company's net investment in the associate) are recognized only to the extent that the Company has incurred legal or constructive obligation or made payment on behalf of the associate.

### 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 investments to maturity are classified as investments 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, less any impairment losses.

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

An investment is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. 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, determined on the basis of prevailing market prices, with any resulting gain or loss recognized directly in the profit and loss account.

## 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, obsolete and in transit items. Cost is determined on the moving average basis and comprises cost of purchases and other costs incurred in bringing the inventories to their present location and condition. Net



# Notes to the Financial Statements

For the year ended 30 June 2012

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.

## 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 sale of goods is recognized when significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of government levies. 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 and is measured at the fair value of the consideration received or receivable.

## 3.10 FINANCE INCOME AND EXPENSE

Finance income comprises interest income on funds invested, delayed payments from customers, dividend income, exchange gain and changes in the fair value of financial assets at fair value through profit or loss. 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. The Company recognizes interest if any, on delayed payments from customers on receipt basis. Dividend income on equity investments is recognized when the right to receive the payment is established. Foreign currency gains and losses are reported on a net basis.

Finance cost comprises interest expense on borrowings (if any), unwinding of the discount on provisions and bank charges. Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.



# Notes to the Financial Statements

For the year ended 30 June 2012

## 3.11 JOINT VENTURE

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 and are accounted for as jointly controlled assets.

The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale, together with its share of expenses incurred by the joint venture and any expenses it incurs in relation to its interest in the joint venture on pro rate basis. The Company's share of assets, liabilities, revenues and expenses in joint ventures are accounted for on the basis of latest available audited financial statements of the joint ventures and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date. The difference, if any, between the cost statements and audited financial statements is accounted for in the next accounting year.

## 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 PKR 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 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 trade 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.

## 3.14 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.

## 3.15 TRADE DEBTS AND OTHER RECEIVABLES

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 Financial Statements

For the year ended 30 June 2012

## 3.16 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.

## 3.17 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.

## 3.18 DIVIDEND

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

## 3.19 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.

## 3.20 IMPAIRMENT

### 3.20.1 Non-financial assets

The Company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 3.20.2 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Notes to the Financial Statements

For the year ended 30 June 2012

## 4 SHARE CAPITAL

### Authorized share capital

2012 (Number of shares)	2011 (Number of shares)		2012 (Rupees '000)	2011 (Rupees '000)
<u>5,000,000,000</u>	<u>5,000,000,000</u>	Ordinary Shares of Rs 10 each issued for cash	<u>50,000,000</u>	<u>50,000,000</u>

### Issued, subscribed and paid up capital

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 Oil and Gas Development Corporation (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 74.97% (2011: 74.97%) paid up capital of the Company.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>5 CAPITAL RESERVES</b>			
Capital reserve	5.1	836,000	836,000
Self insurance reserve	5.2	4,070,000	3,223,138
		<u>4,906,000</u>	<u>4,059,138</u>

- 5.1 This represents bonus shares issued by former wholly owned subsidiary- Pirkoh Gas Company (Private) Limited (PGCL) prior to merger.

- 5.2 The Company 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 to share holders.



# Notes to the Financial Statements

For the year ended 30 June 2012

## 6 DEFERRED TAXATION

The balance of deferred tax is in respect of following temporary differences:

	2012 (Rupees '000)	2011 (Rupees '000)
Accelerated depreciation on property, plant and equipment	4,770,651	3,856,208
Expenditure of exploration and evaluation, development and production assets	21,016,272	18,563,141
Provision for decommissioning cost	(1,542,797)	(1,099,288)
Long term receivable	-	(492)
Long term investment in associate	22,113	17,743
Provision for doubtful debts, claims and advances	(90,308)	(98,815)
Provision for slow moving and obsolete stores	(630,158)	(452,302)
	<u>23,545,773</u>	<u>20,786,195</u>

Deferred tax has been calculated at the current effective tax rate of 29.11% (30 June 2011: 29.42%) after taking into account depletion allowance and set of fs, where available, in respect of royalty payment to the GoP. The effective tax rate is reviewed annually.

## 7 DEFERRED EMPLOYEE BENEFITS

	Note	2012 (Rupees '000)	2011 (Rupees '000)
Post retirement medical benefits	7.1	2,681,712	1,985,397
Accumulating compensated absences	7.2	1,941,441	1,315,772
		<u>4,623,153</u>	<u>3,301,169</u>

### 7.1 Post retirement medical benefits

The amount recognized in the balance sheet is as follows:

Present value of defined benefit obligation	4,998,860	3,873,233
Unrecognized actuarial loss	(2,317,148)	(1,887,836)
Net liability at end of the year	<u>2,681,712</u>	<u>1,985,397</u>

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

Present value of defined benefit obligation at beginning of the year	3,873,233	2,575,373
Current service cost	136,124	106,715
Interest cost	527,065	360,552
Benefits paid	(216,960)	(185,581)
Actuarial loss	679,398	1,016,174
Present value of defined benefit obligation at end of the year	<u>4,998,860</u>	<u>3,873,233</u>

# Notes to the Financial Statements

For the year ended 30 June 2012

2012                      2011  
(Rupees '000)

Movement in liability recognized in the balance sheet is as follows:

Opening liability	1,985,397	1,580,886
Expense for the year	913,275	590,092
Benefits paid	(216,960)	(185,581)
Closing liability	<u>2,681,712</u>	<u>1,985,397</u>

Expense recognized in profit and loss account is as follows:

Current service cost	136,124	106,715
Interest cost	527,065	360,552
Net actuarial loss recognized	<u>250,086</u>	<u>122,825</u>
	<u>913,275</u>	<u>590,092</u>

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

Operating expenses	461,011	298,784
General and administration expenses	123,357	80,706
Technical services	<u>328,907</u>	<u>210,602</u>
	<u>913,275</u>	<u>590,092</u>

2012                      2011

Significant actuarial assumptions used were as follows:

Discount rate per annum	12.50%	14%
Medical inflation rate per annum	8%	9%
Exposure inflation rate per annum	3%	3%
Mortality rate	61-66 years	61-66 years

Assumed medical cost trend rates have a significant effect on the amounts recognized in the profit and loss account. A one percent change in assumed medical cost trend rates would have the following effects;

2012  
(Rupees '000)

	1% increase	1% decrease
Present value of medical obligation	5,542,775	4,534,214
Current service cost and interest cost	860,100	701,282

Comparison of present value of defined benefit obligation and experience adjustments of medical benefits is as follows:



# Notes to the Financial Statements

For the year ended 30 June 2012

	2012	2011	2010	2009	2008
	(Rupees '000)				
Present value of obligation	4,998,860	3,873,233	2,575,373	2,186,605	1,901,688
Actuarial loss on obligation	679,398	1,016,174	107,083	63,369	1,238,985

The expected medical expense for next financial year is Rs 1,156.482 million.

## 7.2 Absences

	2012 (Rupees '000)	2011 (Rupees '000)
Obligation	1,315,772	1,118,887
Charge for the year-net	1,170,207	643,446
Payment made during the year	(544,538)	(446,561)
Net liability at end of the year	<u>1,941,441</u>	<u>1,315,772</u>

The rates of discount and salary increase were assumed at 12.50% (2011: 14%) each per annum.

## 8 PROVISION FOR DECOMMISSIONING COST

	Note	2012 (Rupees '000)	2011 (Rupees '000)
Balance at beginning of the year		14,348,981	12,435,365
Provision made during the year		<u>1,499,512</u>	<u>437,422</u>
		15,848,493	12,872,787
Reversal of decommissioning cost due to revision in estimates		(362,713)	-
Unwinding of discount on provision for decommissioning cost	29	<u>1,708,033</u>	<u>1,476,194</u>
Balance at end of the year		<u>17,193,813</u>	<u>14,348,981</u>

The above provision for decommissioning cost is analyzed as follows:

Development and production wells	8,518,875	8,523,950
Production facilities	2,260,628	1,118,756
Unwinding of discount on provision for decommissioning cost		
Development and production wells	<u>5,679,511</u>	<u>4,169,309</u>
Production facilities	<u>734,799</u>	<u>536,966</u>
	<u>6,414,310</u>	<u>4,706,275</u>
	<u>17,193,813</u>	<u>14,348,981</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

Significant assumptions used were as follows:

Discount rate per annum

Inflation rate per annum

2012

2011

12.46%

11.99%

13.36%

9.46%

2012

2011

(Rupees '000)

## 9 TRADE AND OTHER PAYABLES

Creditors

Accrued liabilities

Royalty payable

Excise duty payable

General sales tax payable

Payable to joint venture partners

Retention money

Trade deposits

Employees' pension trust

Un-paid dividend

Un-claimed dividend

Advances from customers

Other payables

Note

9.1

44,954

14,549

8,895,337

6,657,548

5,432,576

3,859,078

229,183

198,147

1,062,456

679,887

2,847,334

2,245,848

361,264

387,424

77,218

137,981

967,075

341,186

294,783

1,693,996

1,010,948

116,930

802,096

367,290

146,627

94,433

22,171,851

16,794,297

### 9.1 Employees' pension trust

The amount recognized in the balance sheet is as follows:

Present value of defined benefit obligation

Fair value of plan assets

Deficit of the fund

Unrecognized actuarial gain

Net liability at end of the year

28,724,023

21,118,775

(20,136,908)

(16,222,573)

8,587,115

4,896,202

(7,620,040)

(4,555,016)

967,075

341,186

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

Present value of defined benefit obligation at beginning of the year

Current service cost

Interest cost

Benefits paid

Actuarial loss

Present value of defined benefit obligation at end of the year

21,118,775

17,529,400

1,457,495

1,256,940

3,421,647

2,401,410

(1,002,472)

(752,939)

3,728,578

683,964

28,724,023

21,118,775





# Notes to the Financial Statements

For the year ended 30 June 2012

2012                      2011  
(Rupees '000)

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

Fair value of plan assets at beginning of the year	16,222,573	12,845,226
Expected return on plan assets	2,040,280	1,875,832
Contributions	2,561,992	1,860,080
Benefits paid	(1,002,472)	(752,939)
Actuarial gain	314,535	394,374
Fair value of plan assets at end of the year	20,136,908	16,222,573

The movement in liability recognized in the balance sheet is as follows:

Opening liability	341,186	-
Expense for the year	3,187,881	2,201,266
Payments to the fund during the year	(2,561,992)	(1,860,080)
Closing liability	967,075	341,186

Expense recognized in profit and loss account is as follows:

Current service cost	1,457,495	1,256,940
Interest cost	3,421,647	2,401,410
Expected return on plan assets	(2,040,280)	(1,875,832)
Actuarial loss recognized	349,019	418,748
	3,187,881	2,201,266

Plan assets comprise:

Bonds	3,442,903	3,406,901
Equity	620,816	652,931
Term deposits Receipts (TDRs)	15,545,920	12,057,497
Cash and bank balances	527,269	105,244
	20,136,908	16,222,573

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

Operating expenses	1,445,905	990,206
General and administration expenses	598,180	429,348
Technical services	1,143,796	781,712
	3,187,881	2,201,266
Actual return on plan assets	2,354,815	2,270,206

# Notes to the Financial Statements

For the year ended 30 June 2012

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.

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:

	2012	2011	2010	2009	2008
	(Rupees '000)				
Present value of defined benefit obligation	28,724,023	21,118,775	17,529,400	12,293,631	11,262,067
Fair value of plan assets	(20,136,908)	(16,222,573)	(12,845,226)	(11,512,672)	(10,024,651)
Deficit	8,587,115	4,896,202	4,684,174	780,959	1,237,416
Experience adjustments on obligation	(3,728,578)	(683,964)	(3,245,897)	591,570	(851,946)
Experience adjustments on plan assets	314,535	394,374	(657,318)	(147,470)	(244,666)

Significant actuarial assumptions used were as follows:

	2012	2011
Discount rate per annum	12.50%	14%
Rate of increase in future compensation levels per annum	12.50%	14%
Expected rate of return on plan assets per annum	12%	12%
Indexation rate per annum	7%	7%

The Company expects to make a contribution of Rs 3,015.951 million (2011: 2,220.806 million) to the employees' pension trust during the next twelve months.

	Note	2012 (Rupees '000)	2011
<b>10 PROVISION FOR TAXATION</b>			
Tax payable at beginning of the year		4,981,309	6,216,639
Income tax paid during the year		(35,977,139)	(29,403,253)
Provision for current taxation - for the year	30	36,610,749	26,167,923
Provision for taxation - prior years	30	(3,193,088)	2,000,000
Tax payable at end of the year		2,421,831	4,981,309



# Notes to the Financial Statements

For the year ended 30 June 2012

## 11 CONTINGENCIES AND COMMITMENTS

### 11.1 Contingencies

- 11.1.1** Claims against the Company not acknowledged as debts amounted to Rs 546.191 million at year end (30 June 2011: Rs 2,786.062 million).
- 11.1.2** Certain banks have issued guarantees on behalf of the Company in ordinary course of business aggregating Rs 2.996 million (30 June 2011 : Rs 106.133 million), refer note 23.1 to the financial statements.
- 11.1.3** The Company's share of associate contingencies based on the financial information of associate for the period ended 31 March 2012 (2011: 31 March 2011) are as follows;
- Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials amounted to Rs 2.838 million (year ended 30 June 2011: Rs 2.838 million).

### 11.2 Commitments

- 11.2.1** Commitments outstanding at year end amounted to Rs 15,183.955 million (year ended 30 June 2011: Rs 12,271.159 million). These include amounts aggregating to Rs 5,799.300 million (year ended 30 June 2011: Rs 7,869.703 million) representing the Company's share in the minimum work commitments under Petroleum Concession Agreements.
- 11.2.2** 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 9,179.234 million (year end 30 June 2011 : Rs 2,437.309 million).
- 11.2.3** The Company's share of associate commitments based on the financial information of associate for the period ended 31 March 2012 (2011: 31 March 2011) are as follows;

	2012 (Rupees '000)	2011 (Rupees '000)
Capital expenditure:		
Share in joint ventures	474,734	182,323
Others	109,171	49,106
	583,905	231,429
Operating lease rentals due:		
Less than one year	5,766	2,926
More than one year but less than five years	13,444	4,680
	19,210	7,606
	603,115	239,035

# Notes to the Financial Statements

For the year ended 30 June 2012

(Rupees '000)

## 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	Vehicles	Decommissioning cost	Capital works in progress (Note 12.3)	Stores held for capital expenditure	Total
<b>Cost</b>															
Balance as at 01 July 2010	184,883	508,357	2,508,474	838,679	46,260,730	1,373,487	9,260,133	617,988	518,374	87,491	4,356,437	1,096,043	8,913,242	2,427,529	78,951,847
Additions	48,032	1,394,154	257,029	296,875	3,783,137	541,486	469,981	36,474	19,364	3,590	253,014	22,712	2,958,575	1,076,911	11,161,334
Disposals / transfers	-	-	-	-	(15,008)	(16,169)	(70,049)	(3,633)	(4,394)	(13)	(91,623)	-	(968,056)	(1,576,613)	(2,745,558)
Adjustments	-	75,799	8,003	(86,523)	(5,007)	8,706	-	(980)	162	-	(160)	-	-	-	-
Balance as at 30 June 2011	232,915	1,978,310	2,773,506	1,049,031	50,023,852	1,907,510	9,660,065	649,849	533,506	91,068	4,517,668	1,118,755	10,903,761	1,927,827	87,367,623
<b>Depreciation</b>															
Balance as at 01 July 2011	232,915	1,978,310	2,773,506	1,049,031	50,023,852	1,907,510	9,660,065	649,849	533,506	91,068	4,517,668	1,118,755	10,903,761	1,927,827	87,367,623
Additions	11,700	144,270	839,465	444,503	9,434,307	102,496	780,837	34,639	57,740	5,658	265,715	1,141,873	1,903,301	803,327	15,969,831
Disposals / transfers	-	-	-	-	(38,288)	(7,568)	-	(4,872)	(26,259)	-	(123,059)	-	(8,460,339)	(902,510)	(9,562,895)
Balance as at 30 June 2012	244,615	2,122,580	3,612,971	1,493,534	59,419,871	2,002,438	10,440,902	679,616	564,987	96,726	4,660,324	2,260,628	4,346,723	1,828,644	93,774,559
<b>Depreciation</b>															
Balance as at 01 July 2010	-	190,643	883,934	615,997	28,658,048	780,096	8,020,193	446,109	453,303	47,108	2,917,900	472,622	-	466,996	43,952,949
Charge for the year	-	43,163	148,878	70,810	3,255,610	103,092	273,834	50,911	43,166	11,313	521,292	92,068	-	(150,078)	4,464,059
On disposals	-	-	-	-	(14,470)	(16,124)	(70,049)	(3,502)	(4,172)	(12)	(87,638)	-	-	-	(195,967)
Adjustments	-	996	2,373	(3,566)	899	148	-	(759)	4	-	(95)	-	-	-	-
Balance as at 30 June 2011	-	234,802	1,035,185	683,241	31,900,087	867,212	8,223,978	492,759	492,301	58,409	3,351,459	564,690	-	316,918	48,221,041
<b>Balance as at 01 July 2011</b>	-	234,802	1,035,185	683,241	31,900,087	867,212	8,223,978	492,759	492,301	58,409	3,351,459	564,690	-	316,918	48,221,041
<b>Charge for the year</b>	-	36,884	204,116	83,129	3,248,341	152,555	300,535	50,711	35,354	11,273	506,993	270,435	-	(123,298)	4,777,028
<b>On disposals</b>	-	-	-	-	(38,106)	(7,548)	-	(4,396)	(25,533)	-	(114,368)	-	-	-	(189,951)
Balance as at 30 June 2012	-	271,686	1,239,301	766,370	35,110,322	1,012,219	8,524,513	539,074	502,122	69,682	3,744,084	835,125	-	193,620	52,808,118
<b>Carrying amount - 30 June 2011</b>	232,915	1,743,508	1,738,321	365,790	18,123,765	1,040,298	1,436,087	157,090	41,205	32,659	1,166,209	554,065	10,903,761	1,610,909	39,146,582
<b>Carrying amount - 30 June 2012</b>	244,615	1,850,894	2,373,670	727,164	24,309,549	990,219	1,916,389	140,542	62,865	27,044	916,240	1,425,503	4,346,723	1,635,024	40,966,441
<b>Rates of depreciation (%)</b>	-	3.3-4	2.5-8	2.5-8	4-20	10	10	15	30-33.33	15	20	2.5-10	-	25	



# Notes to the Financial Statements

For the year ended 30 June 2012

**12.1** Cost and accumulated depreciation as at 30 June 2012 include Rs 25,613.462 million (30 June 2011 : Rs 23,784.830 million) and Rs 15,931.984 million (30 June 2011 : Rs 13,944.805 million) respectively being the Company's share in property, plant and equipment relating to joint ventures operated by other working interest owners.

	Note	2012 (Rupees '000)	2011
<b>12.2 The depreciation charge has been allocated to:</b>			
Operating expenses	25	3,897,657	3,645,113
General and administration expenses	28	135,312	137,145
Technical services		744,059	681,801
		<u>4,777,028</u>	<u>4,464,059</u>
<b>12.3 Capital works in progress</b>			
Production facilities and other civil works in progress:			
Wholly owned		2,509,720	3,080,201
Joint ventures		1,716,316	7,756,279
		<u>4,226,036</u>	<u>10,836,480</u>
Construction cost of field offices and various bases /offices owned by the Company		120,687	67,281
		<u>4,346,723</u>	<u>10,903,761</u>

# Notes to the Financial Statements

For the year ended 30 June 2012

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

Vehicles sold to following in-service/retiring employees as per Company's policy:

	Cost	Book value (Rupees)	Sale proceeds
Mr. Basharat Ali Mirza	1,360,000	1,000	136,000
Mr. Muhammad Rafi	1,360,000	1,000	136,000
Mr. Tariq Majeed Jaswal	1,360,000	1,000	1,000
Mr. Mazhar-Ul-Islam	1,354,655	1,300,657	1,300,657
Mr. Amjad Javed	1,213,974	385,798	385,798
Mr. Jan Ahmed Jokhio	1,213,974	599,659	599,659
Mr. Khalid Bin Yousaf	1,213,974	514,105	514,105
Mr. Navid Akhtar	1,213,974	410,322	410,322
Mr. Muhammad Zafarullah Chaudhary	1,209,735	703,567	703,567
Mr. Abdul Latif Khan	969,000	1,000	96,900
Mr. Abdul Majeed	969,000	1,000	96,900
Mr. Aijaz Muhammad Khan	969,000	1,000	96,900
Mr. Arshad Mehmod Khan	969,000	1,000	96,900
Mr. Asad Ahmed Asad	969,000	1,000	96,900
Mr. Ashraf Anis	969,000	1,000	96,900
Mrs. Muhammad Arshad Hussain(Late)	969,000	1,000	1,000
Mr. Muhammad Abdulqayyum	969,000	1,000	96,900
Mr. Muhammad Ajmal	969,000	1,000	96,900
Mr. Muhammad Amjad Ehsan	969,000	1,000	96,900
Mr. Muhammad Khalid Paracha	969,000	1,000	96,900
Mr. Muhammad Riaz Khan	969,000	1,000	96,900
Mr. Muhammad Shafiq	969,000	1,000	96,900
Mr. Muhammad Yousaf	969,000	1,000	96,900
Mr. Nadeem Ahmed Ansari	969,000	1,000	96,900
Mr. Naseer Ahmed Rana	969,000	1,000	96,900
Mr. Rashid Mehmood	969,000	1,000	96,900
Mr. Shahid Ahmed Pathan	969,000	1,000	6,900
Mr. Tahir Mahmood Qureshi	969,000	1,000	96,900
Mr. Zafar Iqbal Awan	969,000	1,000	1,000
Mr. Zafar Ishaq Rajpoot	969,000	1,000	96,900
Mr. Zain-Ul-Abedin	969,000	1,000	1,000
Mr. Ziauddin Ahmed Khan	969,000	1,000	96,900
Mr. Mahmud Ahmed Akhtar	943,000	1,000	1,000
Mr. Syed Shamim Abbas Naqvi	682,492	352,388	352,388
Mr. Abdul Ghaffar	559,244	86,954	86,954
Mr. Abdullah Shahid	559,244	1,000	55,924
Mr. Anis Ahmad Siddiqui	559,244	46,271	46,271
Mr. Arshad Mehmood	559,244	1,000	55,924
Mr. Arshad Sultan	559,244	1,000	55,924
Mr. Asadullah Sajid	559,244	1,000	55,924
Capt. Muhammad Nasim	559,244	1,000	55,924
Capt. Muhammad Siddiq Awan	559,244	1,000	55,924
Mr. Iftikhar Ahmed	559,244	1,000	55,924





# Notes to the Financial Statements

For the year ended 30 June 2012

## Vehicles sold to following in-service/retiring employees as per Company's policy - Continued

	Cost	Book value (Rupees)	Sale proceeds
Mr. Ikramullah Khan	559,244	1,000	55,924
Mr. Khalid Faiz	559,244	1,000	55,924
Mr. Khalid Mehmood Khan	559,244	4,911	4,911
Mr. Khalid Naseer Dar	559,244	1,000	55,924
Mr. Khawaja Athar Hasan	559,244	1,000	55,924
Mr. Khurshid Akhtar	559,244	1,000	55,924
Mr. Malik Mohammad Ishtiaq	559,244	1,000	55,924
Mr. Manzoor Hussain Memon	559,244	1,000	55,924
Mr. Masood Pervez	559,244	1,000	55,924
Mr. Momin Khan	559,244	1,000	55,924
Mr. Muhammad Abid Tufail	559,244	1,000	55,924
Mr. Muhammad Aijaz	559,244	1,000	55,924
Mr. Muhammad Shaheer Baig	559,244	1,000	55,924
Mr. Muhammad Siddiq Rahujo	559,244	1,000	55,924
Mr. Muhammad Tariq Iqbal	559,244	1,000	55,924
Mr. Muhammad Yousaf	559,244	1,000	55,924
Mr. Mukhtar Ahmed	559,244	1,000	55,924
Mr. Nadeem Hussain Rizvi	559,244	1,000	54,894
Mr. Naseer Ahmed Paracha	559,244	1,000	54,894
Mr. Nasim Ahmed	559,244	1,000	55,925
Mr. Navid Rehmat	559,244	1,000	55,924
Mr. Noor Alam	559,244	1,000	55,924
Mr. Qadam Khan	559,244	1,000	55,924
Mr. Sharifullah Khan	559,244	23,942	23,942
Mr. Syed Qasim Raza	559,244	1,000	55,924
Mr. Riaz-Ud-Din	559,244	25,165	25,165
Mr. Zubair Saeed	559,244	1,000	55,924
Mr. Muhammad Anwar	559,244	1,000	55,924
Mr. Fazal Karim	556,667	1,000	55,667
Mr. Abdul-Ghani Memon	555,000	1,000	55,500
Mr. Abdullah Bajir	555,000	1,000	55,500
Mr. Aitzaz Ahmed Khan	555,000	1,000	55,500
Mr. Anis Ashraf	555,000	1,000	55,500
Mr. Anwar Ali	555,000	1,000	55,500
Mr. Ayub Shah	555,000	1,000	55,500
Dr. Asghar Ali	555,000	1,000	55,500
Mr. Ehsan Elahi	555,000	1,000	55,500
Mr. Javed Iqbal	555,000	1,000	55,500
Mr. Khalid Iqbal Qureshi	555,000	1,000	54,477
Mr. Mahmood Abbas	555,000	1,000	55,500
Mr. Malik Amir Muhammad Afzal	555,000	1,000	55,500



# Notes to the Financial Statements

For the year ended 30 June 2012

Vehicles sold to following in-service/retiring employees as per Company's policy:

	Cost	Book value (Rupees)	Sale proceeds
Mr. Manzoor Ahmed	555,000	1,000	55,500
Mr. Masood Iqbal	555,000	1,000	55,500
Mr. Mohsin Ghani	555,000	1,000	55,500
Mr. Muhammad Arif Bhutto	555,000	1,000	55,500
Mr. Muhammad Ashraf	555,000	1,000	55,500
Mr. Muhammad Hanif	555,000	1,000	55,500
Mr. Muhammad Haroon	555,000	1,000	55,500
Mr. Muhammad Rizwan	555,000	1,000	55,500
Mr. Muhammad Saghir	555,000	1,000	55,500
Mr. Nazar Abbas	555,000	1,000	55,500
Mr. Noor Ahmed	555,000	1,000	55,500
Mr. Riaz Ahmed Awan	555,000	69,301	69,301
Mr. Saeed Akhtar	555,000	1,000	55,500
Mr. Manzoor Ahsan	554,244	1,000	55,424
Mr. Muhammad Arif	554,244	1,000	55,424
Mr. Muhammad Iqbal Khan	554,244	1,000	55,424
Mr. Saleem Ahmed Khan	554,244	1,000	55,424
Mr. Muhammad Essa Solangi	554,000	1,000	55,400
Mr. Amanat Ali Qureshi	519,244	1,000	51,924
Mr. Waqar Ahmed Muazzam	514,244	1,000	51,424
Mr. Syed Altaf Hyder	513,244	1,000	51,324
Mr. Mizan ur Rehman	347,730	1,000	34,773
	75,201,911	4,616,040	10,378,734
Computers sold to employees as per Company's policy	14,142,051	392,789	1,443,288
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.	93,450,625	652,695	29,862,401
2012	<u>182,794,587</u>	<u>5,661,524</u>	<u>41,684,423</u>
2011	<u>101,428,874</u>	<u>4,335,968</u>	<u>34,205,121</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

## 13 DEVELOPEMENT AND PRODUCTION ASSETS - intangibles

(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				
<b>Cost</b>								
Balance as at 01 July 2010	34,688,700	35,655,951	5,612,518	8,567,172	9,672,610	94,196,951	8,109,239	102,306,190
Additions	-	-	-	-	10,849,885	10,849,885	414,711	11,264,596
Transfer from exploration and evaluation assets	1,147	1,268,888	236	643,755	-	1,914,026	-	1,914,026
Transfers in/(out)	7,653,308	7,583,236	25,658	473,075	(15,735,277)	-	-	-
<b>Balance as at 30 June 2011</b>	<b>42,343,155</b>	<b>44,508,075</b>	<b>5,638,412</b>	<b>9,684,002</b>	<b>4,787,218</b>	<b>106,960,862</b>	<b>8,523,950</b>	<b>115,484,812</b>
Balance as at 01 July 2011	42,343,155	44,508,075	5,638,412	9,684,002	4,787,218	106,960,862	8,523,950	115,484,812
Additions	-	-	-	-	12,517,878	12,517,878	(5,075)	12,512,803
Transfer from exploration and evaluation assets	32,171	381,134	21	2,389,638	-	2,802,964	-	2,802,964
Transfers in/(out)	4,568,470	6,859,938	1,195,468	(1,879)	(12,621,997)	-	-	-
<b>Balance as at 30 June 2012</b>	<b>46,943,796</b>	<b>51,749,147</b>	<b>6,833,901</b>	<b>12,071,761</b>	<b>4,683,099</b>	<b>122,281,704</b>	<b>8,518,875</b>	<b>130,800,579</b>
<b>Amortization</b>								
Balance as at 01 July 2010	21,144,378	17,493,317	377,603	141,994	-	39,157,292	4,518,041	43,675,333
Charge for the year	5,298,033	5,617,682	-	-	-	10,915,715	1,166,199	12,081,914
<b>Balance as at 30 June 2011</b>	<b>26,442,411</b>	<b>23,110,999</b>	<b>377,603</b>	<b>141,994</b>	<b>-</b>	<b>50,073,007</b>	<b>5,684,240</b>	<b>55,757,247</b>
Balance as at 01 July 2011	26,442,411	23,110,999	377,603	141,994	-	50,073,007	5,684,240	55,757,247
Charge for the year	4,136,518	5,110,713	22,916	-	-	9,270,147	301,012	9,571,159
<b>Balance as at 30 June 2012</b>	<b>30,578,929</b>	<b>28,221,712</b>	<b>400,519</b>	<b>141,994</b>	<b>-</b>	<b>59,343,154</b>	<b>5,985,252</b>	<b>65,328,406</b>
<b>Impairment</b>								
Balance as at 01 July 2011	-	-	703,589	-	-	703,589	97,079	800,668
Charge for the year	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2012</b>	<b>-</b>	<b>-</b>	<b>703,589</b>	<b>-</b>	<b>-</b>	<b>703,589</b>	<b>97,079</b>	<b>800,668</b>
Carrying amounts - 30 June 2011	15,900,744	21,397,076	4,557,220	9,542,008	4,787,218	56,184,266	2,742,631	58,926,897
<b>Carrying amounts - 30 June 2012</b>	<b>16,364,867</b>	<b>23,527,435</b>	<b>5,729,793</b>	<b>11,929,767</b>	<b>4,683,099</b>	<b>62,234,961</b>	<b>2,436,544</b>	<b>64,671,505</b>

### 13.1 Wells in progress

2012 2011  
(Rupees '000)

Wholly owned  
Joint ventures

1,062,626	2,855,272
3,620,473	1,931,946
<b>4,683,099</b>	<b>4,787,218</b>

# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>14 EXPLORATION AND EVALUATION ASSETS</b>			
Balance at beginning of the year		4,177,087	4,899,241
Additions during the year		6,166,047	5,124,570
		10,343,134	10,023,811
Cost of dry and abandoned wells during the year	27	(9,345)	(3,932,698)
Cost of wells transferred to development and production assets during the year		(2,802,964)	(1,914,026)
		(2,812,309)	(5,846,724)
		7,530,825	4,177,087
Stores held for exploration and evaluation activities	14.1	2,875,331	3,784,110
Balance at end of the year		10,406,156	7,961,197
<b>14.1 Stores held for exploration and evaluation activities</b>			
Balance at beginning of the year		3,784,110	4,652,153
Additions		147,610	98,831
Issuances		(1,056,389)	(966,874)
Balance at end of the year		2,875,331	3,784,110
<b>14.2 Liabilities, other assets and expenditure incurred on exploration and evaluation activities are:</b>			
Liabilities related to exploration and evaluation		754,897	463,945
Current assets related to exploration and evaluation		131,169	154,403
Exploration and prospecting expenditure	27	4,047,774	6,621,705
<b>15 LONG TERM INVESTMENTS</b>			
Investments in related party	15.1	294,633	250,930
Investments held to maturity	15.2	3,693,000	3,318,000
		3,987,633	3,568,930
<b>15.1 Investment in related party - associate, quoted</b>			
Mari Gas Company Limited (MGCL)			
Cost of investment (18,375,000 (2011: 14,700,000) fully paid ordinary shares of Rs 10 each including 11,484,375 bonus shares)		73,500	73,500
Post acquisition profits brought forward		177,430	148,134
		250,930	221,634
Share of profit for the year - net of taxation		87,215	78,438
Dividend received		(43,512)	(49,142)
		43,703	29,296
		294,633	250,930



# Notes to the Financial Statements

For the year ended 30 June 2012

Summarized financial information in respect of MGCL is set out below:

	2012 (Rupees '000)	2011
Total assets	31,092,568	24,055,049
Total liabilities	18,882,081	13,688,790
Total revenue for the period	5,786,761	4,807,415
Total distribution for the period	335,955	281,864

The latest available unaudited financial statements of MGCL are that of 31 March 2012. For the purpose of applying equity method of accounting, the assets, liabilities and results are based on unaudited financial information of MGCL for the nine months period ended 31 March 2012 (2011: 31 March 2011) as the financial statements for the year ended 30 June 2012 were not issued till the date of authorization of financial statements of the Company.

Under the terms of Well Head Price Agreement between Mari Gas Company Limited (MGCL) and the President of Islamic Republic of Pakistan, the shareholders of Mari Gas Company Limited are entitled to certain minimum return on shareholders' funds as stipulated in the said agreement. MGCL has created certain un-distributable reserves out of profits in accordance with the terms of above referred agreement. Accordingly, for the purpose of equity accounting, the Company has accounted for its share of profit from MGCL only to the extent of profit which is available for distribution among the shareholders.

The Company has 20% (2011: 20%) holding in the associate. The fair value of the investment in associate as of the year end was Rs 1,723.758 million (30 June 2011: Rs 1,578.339 million).

	Note	2012 (Rupees '000)	2011
<b>15.2 Investments held to maturity</b>			
Term Deposit Receipts (TDRs)	15.2.1	3,693,000	3,318,000
		<u>3,693,000</u>	<u>3,318,000</u>

**15.2.1** These represent investments in local currency TDRs. Face value of these investments is Rs 3,693 million (30 June 2011: Rs 3,318 million) and carry effective interest rate of 11.85% to 12.20% (30 June 2011: 13.85%) per annum. These investments 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 for a longer term. These investments are earmarked against capital reserve as explained in note 5 to the financial statements.

	Note	2012 (Rupees '000)	2011
<b>16 LONG TERM LOANS AND RECEIVABLE</b>			
Long term loans:			
Secured	16.1	2,960,086	2,410,907
Unsecured	16.2	106,548	-
Long term receivable - unsecured	16.3	-	-
		<u>3,066,634</u>	<u>2,410,907</u>

# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>16.1 Long term loans - secured</b>			
Considered good:			
Executives		1,107,518	790,661
Other employees		2,390,430	2,043,754
		3,497,948	2,834,415
Current portion shown under loans and advances	19	(537,862)	(423,508)
		2,960,086	2,410,907

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

	Balance as at 01 Jul 2011	Disbursement during the year	Adjustments during the year	Repayments during the year	Balance as at 30 June 2012
	(Rupees '000)				
Due from:					
Executives	790,661	276,004	212,032	(171,179)	1,107,518
Other employees	2,043,754	823,007	(212,032)	(264,299)	2,390,430
2012	2,834,415	1,099,011	-	(435,478)	3,497,948
2011	2,159,771	1,007,589	-	332,945	2,834,415

**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 2,790.276 million (30 June 2011: Rs 2,275.800 million) which carry no interest. The balance amount carries an effective interest rate of 13.61% (30 June 2011: 13.17%) per annum. Interest free loans to employees have not been discounted as required by IAS 39 "Financial Instruments: Recognition and Measurement" as the amount involved is deemed immaterial.

The maximum amount due from executives at the end of any month during the year was Rs 1,128.962 million (30 June 2011: Rs 790.661 million).

**16.2** The Company and other working interest owners in Chanda, Nashpa and Tal joint ventures have entered into an agreement dated 20 October 2010 with National Highway Authority (NHA) for provision of interest free loan to NHA amounting to Rupees 700 million for construction of new Bridge on River Indus, District Kohat. The bridge will facilitate operations of these joint ventures including transportation of crude oil & condensate, materials & equipment and staff etc. According to the agreement, share of Tal, Nashpa and Chanda joint ventures in the loan will be 68.63%, 23.09% and 8.28% respectively and will be paid to NHA by the Company in stages based on percentage completion of work. Proportionate share in stage-wise payments of the loan will be recovered by the Company from other working interest owners.



# Notes to the Financial Statements

For the year ended 30 June 2012

As per terms and conditions of the agreement, NHA will design, construct, operate and maintain the new bridge and shall commission the bridge within 27 months from the date of agreement. NHA shall not charge the Company and other operator the toll tax for the use of new bridge till the entire loan stands repaid. The loan is repayable by NHA in seven years in 84 equal monthly installments, with grace period of one year, starting from one year after the commissioning of the bridge. The amount of Rs 106.548 million as on 30 June 2012 represents the Company's net share, based on effective rate of 38.05%, in payments to NHA which have not been discounted as required by IAS 39 "Financial Instruments: Recognition and Measurement" as the amount involved is deemed immaterial.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>16.3 Long term receivable - unsecured</b>			
Considered good		606,937	606,937
Effect of fair value adjustment		-	(1,671)
		<u>606,937</u>	<u>605,266</u>
Current portion shown under other receivables	21	<u>(606,937)</u>	<u>(605,266)</u>
		<u>-</u>	<u>-</u>

This represents receivable 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.

This receivable carries no interest and was repayable in eight years with two years grace period. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" this has been stated at present value using the discount rate of 7.5% per annum and the difference between the carrying amount and present value of expected future cash flows has been included in profit and loss account.

The amount from KESC was receivable in 32 equal quarterly installments of Rs 46.688 million commencing from February 2004. KESC has not paid any installment due since December 2008 due to prevailing circular debt issue. The GoP has confirmed to the Company in writing that steps are being taken to resolve the issue of circular debt under a policy on priority. Management considers this amount to be fully recoverable. Therefore, no provision has been made in these financial statements.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>17 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores, spare parts and loose tools		14,775,520	15,123,251
Stores and spare parts in transit		250,140	403,737
		<u>15,025,660</u>	<u>15,526,988</u>
Provision for slow moving, obsolete and in transit stores	17.1	<u>(2,164,937)</u>	<u>(1,547,134)</u>
		<u>12,860,723</u>	<u>13,979,854</u>
<b>17.1 Movement of provision for slow moving, obsolete and in transit stores</b>			
Opening balance as on July 01,		1,547,134	1,537,567
Provision charge for the year		660,507	9,567
Inventory written off against provision		(42,704)	-
Closing balance as on June 30,		<u>2,164,937</u>	<u>1,547,134</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

		2012 (Rupees '000)	2011 (Rupees '000)
<b>18</b>	<b>TRADE DEBTS</b>		
	Un-secured, considered good	138,095,764	77,911,312
	Un-secured, considered doubtful	112,782	138,440
		<u>138,208,546</u>	<u>78,049,752</u>
	Provision for doubtful debts	(112,782)	(138,440)
		<u>138,095,764</u>	<u>77,911,312</u>
<b>18.1</b>	Trade debts include overdue amount of Rs 92,878 million (30 June 2011: Rs 45,072 million) receivable from oil refineries and gas companies. Considering slow settlement of these debts during the year due to circular debt issue, a committee under the chairmanship of Secretary Finance, GoP has been formed to review and settle the circular debt issue. The GoP has confirmed to the Company in writing that steps are being taken to resolve the issue of circular debt under a mechanism on priority. Management considers this amount to be fully recoverable. Therefore, no provision has been made in these financial statements on account of circular debts outstanding.		

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>19</b>	<b>LOANS AND ADVANCES</b>		
	Advances considered good:		
	Suppliers and contractors	349,202	541,458
	Joint venture partners	1,487,168	907,821
	Others	3,230,744	866,086
		<u>5,067,114</u>	<u>2,315,365</u>
	Current portion of long term loans - secured	537,862	423,508
		<u>5,604,976</u>	<u>2,738,873</u>
	Advances considered doubtful	187,033	187,033
		<u>5,792,009</u>	<u>2,925,906</u>
	Provision for doubtful advances	(187,033)	(187,033)
		<u>5,604,976</u>	<u>2,738,873</u>
<b>19.1</b>	This includes an amount of Rs 3,206 million paid under protest to Inland Revenue Authority on account of sales tax demand raised in respect of capacity invoices from Uch Gas Field for the period from July 2004 to March 2011. The Company has explained its position on various forums and the issue went to Supreme Court of Pakistan which also turned down the appeal. However, the Company has filed a review petition before the Supreme Court of Pakistan and based on advice of legal counsel, the Company strongly believes that the matter will be decided in its favour.		

		2012 (Rupees '000)	2011 (Rupees '000)
<b>20</b>	<b>DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
	Security deposits	14,591	14,516
	Short term prepayments	970,205	625,713
		<u>984,796</u>	<u>640,229</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>21 OTHER RECEIVABLES</b>			
Development surcharge		80,357	80,357
Current portion of long term receivable - unsecured	16.3	606,937	605,266
Claims receivable		26,850	28,703
Workers' profit participation fund	21.1	245,641	711,463
Others		38,867	33,284
		<u>998,652</u>	<u>1,459,073</u>
Claims considered doubtful		10,439	10,439
		<u>1,009,091</u>	<u>1,469,512</u>
Provision for doubtful claims		(10,439)	(10,439)
		<u>998,652</u>	<u>1,459,073</u>
<b>21.1 Workers' profit participation fund - net</b>			
Receivable at beginning of the year		711,463	289,329
Received from fund during the year		(711,463)	(289,329)
		-	-
Paid to the fund during the year		7,250,000	5,500,000
		<u>7,250,000</u>	<u>5,500,000</u>
Charge for the year		(7,004,359)	(4,788,537)
Receivable at end of the year		<u>245,641</u>	<u>711,463</u>
<b>22 OTHER FINANCIAL ASSETS</b>			
Investments:			
At fair value through profit or loss - NIT units		137,389	145,925
Held to maturity	22.1	51,683,192	38,299,630
		<u>51,820,581</u>	<u>38,445,555</u>

**22.1** This represents foreign currency TDRs amounting to USD 251.763 million (30 June 2011: USD 188.005 million), carrying interest rate ranging from 1.55% to 3.20% (30 June 2011: 2.00% to 3.54%) per annum and local currency TDRs amounting to Rs 27,879 million (30 June 2011: Rs 22,150 mil lion), carrying interest rate of 11.35% to 12.20% (30 June 2011: 13.03% to 13.85%) per annum.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>23 CASH AND BANK BALANCES</b>			
Cash at bank:			
Deposit accounts	23.1	3,669,879	13,725,436
Current accounts		69,331	89,838
		<u>3,739,210</u>	<u>13,815,274</u>
Cash in hand		28,479	22,780
Cash in transit		-	3,835
		<u>3,767,689</u>	<u>13,841,889</u>

# Notes to the Financial Statements

For the year ended 30 June 2012

**23.1** These deposit accounts carry interest rate of 0.25% to 11.25% (30 June 2011: 0.05% to 12.00%) per annum and include foreign currency deposits amounting to USD 6.139 million (30 June 2011: USD 2.689 million). Deposits amounting to Rs 2.996 million (30 June 2011: Rs 106.133 million) with banks were under lien to secure bank guarantees issued on behalf of the Company.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>24 SALES - net</b>			
<b>Gross sales</b>			
Crude oil	24.2	109,413,764	84,825,937
Gas		104,924,338	93,823,246
Gasoline		172,820	75,940
Kerosene oil		48,697	47,045
High speed diesel oil		-	1,823
Naphtha		-	151,162
Liquefied petroleum gas		6,464,469	5,424,125
Sulphur		600,142	880,162
Other operating revenue	24.1	96,506	47,478
		<u>221,720,736</u>	<u>185,276,918</u>
Effect of price discount on crude oil-net of government levies	24.3	(5,207,727)	(15,239,388)
Effect of gas price revision-net of government levies		-	2,786,389
		<u>(5,207,727)</u>	<u>(12,452,999)</u>
<b>Government levies</b>			
Excise duty		(3,105,861)	(2,936,566)
Development surcharge		(34,725)	(6,638)
General sales tax		(15,533,069)	(14,159,216)
Discount on crude oil price		(628)	(90,209)
		<u>(18,674,283)</u>	<u>(17,192,629)</u>
		<u>197,838,726</u>	<u>155,631,290</u>
<b>24.1 Other operating revenue</b>			
Gas processing		36,316	47,478
Geophysical services		60,190	-
		<u>96,506</u>	<u>47,478</u>

**24.2** Oil and gas sales include sales from Kunnar Deep, Nashpa and Mela fields invoiced on provisional prices. There may be adjustment in revenue upon issuance of final wellhead prices notification by Ministry of Petroleum and Natural Resources (MP&NR), impact of which cannot be determined at this stage.



# Notes to the Financial Statements

For the year ended 30 June 2012

**24.3** Kunnar crude oil price was provisionally fixed by the Ministry of Petroleum and Natural Resources (MP&NR) vide letter no. PL-NPA(4)2000-Kun dated 17 June 2002 on the basis of pricing formula of Badin-II (Revised) concession having no price discounts, subject to retrospective adjustment on finalization of Kunnar Crude Oil Sale Purchase Agreement ("the COSA"). As advised by the MP&NR vide letter No.PL-Misc.(6)/2005/Bobi dated 30 October 2008 the Kunnar COSA was submitted on the basis of aforementioned pricing formula. Later on, the MP&NR advised that the Kunnar COSA may be resubmitted on the basis of Badin-I pricing formula which contains discounts and the Company was also advised vide MP&NR letter No. PL-NPA(4)2009-Kunnar dated 30 April 2011, to revise invoices for the period starting January 2007. The Company is pursuing the matter with the concerned authorities to get the price without discount, however, being prudent the Company has already made an adjustment of Rs 15,239 million upto 30 June 2011. Further, the difference between initial and discounted price for the period from July 2011 to June 2012 amounting to Rs 5,208 million has also been adjusted in these financial statements.

**24.4** Qadirpur gas price is linked with High Sulphur Fuel Oil (HSFO) prices in the international market. Qadirpur Gas Pricing Agreement contained discount levels defined upto HSFO price of US\$ 200/M. Ton. It also states that in case HSFO price exceeds said level, the parties will negotiate the discount for higher HSFO prices. During price notification period of July-December 2005, the HSFO prices started exceeding US\$ 200/M. Ton. The matter was taken up with the GoP in August 2005. As a result of negotiation with the Government, a discount table for HSFO prices above US\$ 200/M. Ton and upto US\$ 400/M. Ton was agreed in March 2009. Formal notification of revised discount table by the Government is still awaited.

Meanwhile, the Government issued a provisional discount table for HSFO prices upto US\$ 320/M. Ton. The Qadirpur wellhead gas prices are being notified by Oil and Gas Regulatory Authority (OGRA) on the basis of provisional discount table from July 2006 onwards. Adjustment in revenue from July 2005 to June 2012 may be required upon approval of the discount table by the GoP and formal wellhead gas prices notification by OGRA, impact of which cannot be determined at this stage.

# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>25 OPERATING EXPENSES</b>			
Salaries, wages and benefits	25.1	8,351,700	6,163,478
Traveling and transportation		844,274	636,382
Repairs and maintenance		1,647,643	820,607
Stores and supplies consumed		1,781,336	1,260,529
Rent, fee and taxes		621,878	363,350
Insurance		455,833	425,272
Communication		35,841	35,699
Utilities		40,299	34,346
Land and crops compensation		313,471	227,805
Contract services		1,661,251	1,981,676
Joint venture expenses		1,124,934	1,374,068
Desalting, decanting and naphtha storage charges		70,426	108,074
Gas processing charges		522,256	-
Charges related to minimum supply of gas - liquidated damages		1,964	195,570
Welfare of locals at fields		234,175	164,650
Provision for slow moving, obsolete and in transit stores		660,507	9,567
Stores inventory written off		-	1,318
Workover charges		664,932	1,189,941
Depreciation	12.2	3,897,657	3,645,113
Impairment on development and production assets		-	800,668
Amortization of development and production assets	13	9,571,159	12,081,914
Transfer from general and administration expenses	28	1,822,167	1,564,257
Miscellaneous		4,527	3,327
		<b>34,328,230</b>	<b>33,087,611</b>
Stock of crude oil and other products:			
Balance at beginning of the year		261,835	172,084
Balance at end of the year		(210,523)	(261,835)
		<b>34,379,542</b>	<b>32,997,860</b>

**25.1** These include charge against employee retirement benefits of Rs 1,906.917 million (2011: Rs 1,282.302 million).



# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>26 OTHER INCOME</b>			
<b>Income from financial assets</b>			
Interest income on:			
Investments and bank deposits		6,827,403	2,711,545
Delayed payments from customers		232,932	329,114
		<u>7,060,335</u>	<u>3,040,659</u>
Dividend income from NIT units		18,161	10,216
Un-realized (loss)/gain on investments at fair value through profit or loss		(8,536)	18,025
Effect of fair value adjustment of long term receivable		1,673	13,536
Exchange gain/(loss) - net		2,030,319	(43,250)
		<u>9,101,952</u>	<u>3,039,186</u>
<b>Income from non financial assets</b>			
Gain on disposal of property, plant and equipment		36,023	29,869
Gain on disposal of stores, spare parts and loose tools		161,580	40,699
Others		360,888	194,217
		<u>558,491</u>	<u>264,785</u>
		<u>9,660,443</u>	<u>3,303,971</u>
<b>27 EXPLORATION AND PROSPECTING EXPENDITURE</b>			
Cost of dry and abandoned wells	14	9,345	3,932,698
Prospecting expenditure		4,038,429	2,689,007
		<u>4,047,774</u>	<u>6,621,705</u>
<b>28 GENERAL AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits	28.1	3,127,935	2,383,212
Traveling and transportation		287,909	260,022
Repairs and maintenance		135,219	205,986
Stores and supplies consumed		74,251	46,585
Rent, fee and taxes		61,732	47,721
Communication		46,108	39,352
Utilities		51,590	46,589
Training and scholarships		15,206	12,803
Legal services		25,550	32,578
Contract services		129,351	121,322
Auditors' remuneration	28.2	11,530	13,108
Advertising		152,023	41,765
Joint venture expenses		536,509	552,572
Insurance		1,816	1,803
Donations	28.3	50,200	220,487
Unallocated expenses of technical services		491,936	517,504
Depreciation	12.2	135,312	137,145
Miscellaneous		12,664	10,684
		<u>5,346,841</u>	<u>4,691,238</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
Allocation of expenses to:			
Operations	25	(1,822,167)	(1,564,257)
Technical services		(1,324,361)	(893,309)
		(3,146,528)	(2,457,566)
		2,200,313	2,233,672

**28.1** These include charge against employee retirement benefits of Rs 721.537 million (2011: Rs 508.293 million).

## 28.2 Auditors' remuneration

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

Annual audit fee	1,600	1,350
Half yearly review	400	350
Out of pocket expenses	200	200
Concession audit fee	3,314	3,743
Verification of Central Depository Company record	100	50
Dividend certification	400	-
Audit fee for claims lodged by employees under BESOS	270	202
Annual audit fee BESOS	-	214
Special review for ten months 30 April 2011 & 2010	-	770
	6,284	6,879

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

Annual audit fee	1,600	1,350
Half yearly review	400	350
Out of pocket expenses	200	200
Verification of Central Depository Company record	100	50
Concession audit fee	2,946	2,819
Certification of fee payable to OGRA	-	200
Dividend certification	-	300
Audit of Workers' Profit Participation Fund	-	100
Formulation of BESOS rules for OGDCL Employees Empowerment Trust	-	90
Special review for ten months 30 April 2011 & 2010	-	770
	5,246	6,229
	11,530	13,108

**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 Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>29 FINANCE COST</b>			
Unwinding of discount on provision for decommissioning cost	8	1,708,033	1,476,194
Others		10,618	8,587
		<u>1,718,651</u>	<u>1,484,781</u>
<b>30 TAXATION</b>			
Provision for taxation:			
- for the year	10	36,610,749	26,167,923
- prior years	10	(3,193,088)	2,000,000
		<u>33,417,661</u>	<u>28,167,923</u>
Deferred		2,759,578	(712,989)
	30.1	<u>36,177,239</u>	<u>27,454,934</u>
<b>30.1 Reconciliation of tax charge for the year:</b>			
Accounting profit		<u>133,082,814</u>	<u>90,982,204</u>
Tax rate		<u>48.68%</u>	<u>48.78%</u>
Tax on accounting profit at applicable rate		64,778,226	44,381,119
Tax effect of royalty allowed for tax purposes		(9,411,726)	(7,588,598)
Tax effect of depletion and other allowances		(14,664,458)	(11,600,134)
Tax effect of amount not admissible for tax purposes		(965,432)	1,119,446
Tax effect of exempt income		(1,149)	(1,019)
Tax effect of income chargeable to tax at reduced corporate rate		(1,071,607)	(16,543)
Tax effect of litigious taxation issues		5,159,181	2,531,417
Tax effect of prior years		(3,193,088)	2,000,000
Tax impact of deferred tax charged at reduced effective tax rate		(2,924,803)	(1,258,306)
Others		(1,527,905)	(2,112,448)
		<u>36,177,239</u>	<u>27,454,934</u>

**30.2** Various appeals in respect of assessment years 1992-93 to 2002-03, tax years 2003 to 2011 are pending at different appellate forums in the light of the order of the Commissioner of Inland Revenue (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, depletion allowance and tax rate.

	2012	2011
<b>31 EARNINGS PER SHARE - BASIC AND DILUTED</b>		
Profit for the year (Rupees '000)	<u>96,905,575</u>	<u>63,527,270</u>
Average number of shares outstanding during the year ('000)	<u>4,300,928</u>	<u>4,300,928</u>
Earnings per share - basic (Rupees)	<u>22.53</u>	<u>14.77</u>
There is no dilutive effect on the earnings per share of the Company.		

# Notes to the Financial Statements

For the year ended 30 June 2012

## 32 FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### 32.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. As part of these processes the financial viability of all counter parties is regularly monitored and assessed.

The Company is exposed to credit risk from its operating and certain investing activities and the Company's credit risk exposures are categorized under the following headings:

#### 32.1.1 Counter parties

The Company conducts transactions with the following major types of counter parties:

##### Trade debts

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. Majority of sales to the Company's customers are made on the basis of agreements approved by GoP.



# Notes to the Financial Statements

For the year ended 30 June 2012

Sale of crude oil and natural gas is at prices determined in accordance with the agreed pricing formula as approved by GoP under respective agreements. Prices of liquefied petroleum gas are determined by the Company subject to maximum of preceding months' average prices of Saudi Aramco. Sale of refined petroleum products is made at prices notified by OGRA.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade debts. This allowance is based on the management's assessment of a specific loss component that relates to individually significant exposures.

## Bank and investments

The Company limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counter parties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counter party to fail to meet its obligations.

### 32.1.2 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012	2011
	(Rupees '000)	
Long term investments	3,693,000	3,318,000
Long term loans and receivable	4,104,885	3,439,681
Trade debts	138,095,764	77,911,312
Loans and advances	1,487,168	907,821
Deposits	14,591	14,516
Other receivables	311,358	773,450
Interest accrued	532,587	324,845
Other financial assets	51,683,192	38,299,630
Bank balances	3,739,210	13,815,274
	<u>203,661,755</u>	<u>138,804,529</u>

The maximum exposure to credit risk for financial assets at the reporting date by type of customer was:

Oil refining companies	77,128,107	32,685,730
Oil and gas marketing companies	51,164,444	40,632,970
Power generation companies	9,538,226	4,201,243
Banks and financial institutions	59,647,989	55,757,749
Others	6,182,989	5,526,837
	<u>203,661,755</u>	<u>138,804,529</u>

The Company's most significant customers, an oil refining company and a gas marketing company, accounts for Rs 73,848 million of the trade debts carrying amount at 30 June 2012 (30 June 2011: Rs 40,450 million).

The maximum exposure to credit risk for trade debts at the reporting date by type of product was:

# Notes to the Financial Statements

For the year ended 30 June 2012

	2012 (Rupees '000)	2011 (Rupees '000)
Crude oil	77,128,004	32,685,627
Gas	60,725,962	44,796,477
Kerosene oil	2,064	47,315
High speed diesel oil	86	1,909
Naphtha	103	103
Liquefied petroleum gas	103,674	283,858
Other operating revenue	135,871	96,023
	<u>138,095,764</u>	<u>77,911,312</u>

## 32.1.3 Impairment losses

The aging of trade debts at the reporting date was:

	2012		2011	
	Gross debts	Impaired	Gross debts	Impaired
	(Rupees '000)		(Rupees '000)	
Not past due	39,208,542	-	30,786,598	-
Past due 0-30 days	15,408,700	-	10,988,833	-
Past due 30-60 days	15,263,063	-	6,601,348	-
Past due 60-90 days	12,590,527	-	4,638,294	-
Over 90 days	55,737,714	(112,782)	25,034,679	(138,440)
	<u>138,208,546</u>	<u>(112,782)</u>	<u>78,049,752</u>	<u>(138,440)</u>

The movement in the allowance for impairment in respect of trade debts during the year was as follows:

	2012 (Rupees '000)	2011 (Rupees '000)
Balance at beginning of the year	138,440	196,117
Provision reversed during the year	(25,658)	(57,677)
Balance at end of the year	<u>112,782</u>	<u>138,440</u>

As explained in note 18 to the financial statements, the Company believes that no impairment allowance is necessary in respect of trade debts past due other than the amount provided. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies, the Company is actively pursuing for recovery of debts and the Company does not expect these companies to fail to meet their obligations.

The movement in the allowance for impairment in respect of loans, advances and other receivables during the year was as follows:



# Notes to the Financial Statements

For the year ended 30 June 2012

	2012 (Rupees '000)	2011 (Rupees '000)
Balance at beginning of the year	197,472	197,472
Provision made during the year	-	-
Balance at end of the year	<u>197,472</u>	<u>197,472</u>

The allowance accounts in respect of trade receivables, loans and advances are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset directly.

## 32.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to close out market positions due to dynamic nature of the business. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The maturity profile of the Company's financial liabilities based on the contractual amounts is as follows:

	2012		2011	
	Carrying amount	Contractual cash flows	Carrying amount	Contractual cash flows
	(Rupees '000)		(Rupees '000)	
Trade and other payables				
All the trade and other payables have maturity upto one year	<u>13,678,465</u>	<u>13,678,465</u>	<u>11,348,709</u>	<u>11,348,709</u>

## 32.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity price and crude oil price will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

### 32.3.1 Foreign currency risk management

PKR is the functional currency of the Company and as a result currency exposure arise from transactions and balances in currencies other than PKR. The Company's potential currency exposure comprises;

- Transactional exposure in respect of non functional currency monetary items.
- Transactional exposure in respect of non functional currency expenditure and revenues.



# Notes to the Financial Statements

For the year ended 30 June 2012

The potential currency exposures are discussed below;

## Transactional exposure in respect of non functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit and loss account. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

## Transactional exposure in respect of non functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as a part of overall risk management strategy. The Company does not enter into forward exchange contracts.

## Exposure to foreign currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	2012 (USD '000)	2011
Trade debts	375,459	116,863
Investments held to maturity	251,763	176,427
Cash and bank balances	6,139	2,689
Trade and other payables	(2,910)	(2,967)
	<u>630,451</u>	<u>293,012</u>

Foreign currency commitments outstanding at year end are as follows:

	2012 (Rupees '000)	2011
Euro (E)	5,925,659	414,515
USD (\$)	10,048,534	3,184,140
GBP (£)	293,653	590,661
	<u>16,267,846</u>	<u>4,189,316</u>

The following significant exchange rates applied during the year:

	Average rate		Reporting date mid spot rate	
	2012 (Rupees)	2011 (Rupees)	2012 (Rupees)	2011 (Rupees)
USD 1	<u>89.50</u>	<u>84.91</u>	<u>94.55</u>	<u>85.9</u>



# Notes to the Financial Statements

For the year ended 30 June 2012

## Foreign currency sensitivity analysis

A 10 percent strengthening of the PKR against the USD at 30 June 2012 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 30 June 2011.

	2012 (Rupees '000)	2011
Profit and loss account	5,960,818	2,516,890

A 10 percent weakening of the PKR against the USD at 30 June 2012 would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.

## 32.3.2 Interest rate risk management

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 to ensure that interest rate risk is minimized by investing in fixed rate investments like DSCs and TDRs while the Company has no borrowings.

### - Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	30 June		30 June	
	2012	2011	2012	2011
	%		(Rupees '000)	
<b>Fixed rate instruments</b>				
<b>Financial assets</b>				
Long term investments	11.85 to 12.20	13.85	3,693,000	3,318,000
Long term loans	13.61	13.17	1,782,026	1,118,493
Other financial assets	1.55 to 12.20	2.00 to 13.85	51,683,192	38,299,630
Cash and bank balances	0.25 to 11.25	0.05 to 12.00	3,669,879	13,725,436
			60,828,097	56,461,559
<b>Financial liabilities</b>			-	-
			60,828,097	56,461,559

## Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not have derivatives as hedging instruments recognized under fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2012

## 32.3.3 Other market price risk

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. The primary goal of the Company's investment strategy is to maximize investment returns on surplus funds. The Company's price risk arises from investments in NIT units which are designated at fair value through profit or loss, however, in accordance with the investment strategy the performance of NIT units is actively monitored and they are managed on a fair value basis.

### Sensitivity analysis of price risk

A change of Rs 5 in the value of investments at fair value through profit and loss would have increased or decreased profit and loss by Rs 22.701 million (30 June 2011: Rs 22.701 million).

### Sensitivity analysis of crude oil price risk

A change of USD 5 in average price of crude oil would increase or decrease profit by Rs 6,483 million (30 June 2011: Rs 5,680 million) on the basis that all other variables remain constant.

## 32.4 Fair values

All financial assets and financial liabilities are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortized cost, as indicated in the tables below.

The financial assets and liabilities are presented by class in the tables below at their carrying values, which generally approximate to the fair values.



# Notes to the Financial Statements

For the year ended 30 June 2012

## Financial assets and liabilities

30 June 2012

### Financial assets

Long term loans and receivable
Loans and advances
Deposits
Trade debts - net of provision
Other receivables
Cash and bank balances
Long term investments
Other financial assets
<b>Total financial assets</b>

### Non financial assets

### Total assets

### Financial liabilities

Trade and other payables

### Non financial liabilities

### Total liabilities

## Financial assets and liabilities

30 June 2011

### Financial assets

Long term loans and receivable
Loans and advances
Deposits
Trade debts - net of provision
Other receivables
Cash and bank balances
Long term investments
Other financial assets
<b>Total financial assets</b>

### Non financial assets

### Total assets

### Financial liabilities

Trade and other payables

### Non financial liabilities

### Total liabilities

Loans and receivables	Held at fair value through profit or loss	Other financial assets and liabilities at amortized cost	Total
(Rupees '000)			
3,497,948	-	606,937	4,104,885
1,487,168	-	-	1,487,168
14,591	-	-	14,591
138,095,764	-	-	138,095,764
65,717	-	-	65,717
-	-	3,767,689	3,767,689
-	-	3,693,000	3,693,000
-	137,389	51,683,192	51,820,581
143,161,188	137,389	59,750,818	203,049,395
			135,271,678
			338,321,073
-	-	13,678,465	13,678,465
			56,277,956
			69,956,421

Loans and receivables	Held at fair value through profit or loss	Other financial assets and liabilities at amortized cost	Total
(Rupees '000)			
2,834,415	-	605,266	3,439,681
907,821	-	-	907,821
10,601	-	-	10,601
77,911,312	-	-	77,911,312
61,987	-	-	61,987
-	-	13,841,889	13,841,889
-	-	3,318,000	3,318,000
-	145,925	38,299,630	38,445,555
81,726,136	145,925	56,064,785	137,936,846
			123,840,682
			261,777,528
-	-	11,348,709	11,348,709
			48,863,242
			60,211,951

# Notes to the Financial Statements

For the year ended 30 June 2012

The basis for determining fair values is as follows:

## Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. Since the majority of the financial assets are fixed rate instruments, there is no significant difference in market rate and the rate of instrument, fair value significantly approximates to carrying value.

## Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
	(Rupees '000)		
<b>30 June 2012</b>			
<b>Assets carried at fair value</b>			
Investments at fair value through profit and loss account	137,389	-	-
<b>30 June 2011</b>			
<b>Assets carried at fair value</b>			
Investments at fair value through profit and loss account	145,925	-	-

## Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

### Investment in fair value through profit and loss account - held for trading

The fair value of held for trading investment is determined by reference to their quoted closing repurchase price at the reporting date.

### Investment in associate

The fair value of investment in associate is determined by reference to their quoted closing bid price at the reporting date. The fair value is determined for disclosure purposes.



# Notes to the Financial Statements

For the year ended 30 June 2012

## Non-derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

## Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## 32.5 Capital 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 and/or issue new shares. There were no changes to Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirement.

	Note	2012	2011
		(Rupees '000)	
<b>33 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	3,767,689	13,841,889
Short term highly liquid investments	22	51,683,192	38,299,630
		<u>55,450,881</u>	<u>52,141,519</u>
<b>34 NUMBER OF EMPLOYEES</b>			
Total number of employees at the end of the year was as follows:			
Regular		10,185	10,173
Contractual		218	462
		<u>10,403</u>	<u>10,635</u>
<b>35 RELATED PARTIES TRANSACTIONS</b>			

Government of Pakistan owns 74.97% (2011: 74.97%) shares of the Company. Therefore, all entities owned and controlled by the Government of Pakistan are related parties of the Company. Other related parties comprise associated company, major shareholders, directors, companies with common directorship, key management personnel and employees pension trust. The Company in normal course of business pays for electricity, gas and telephone to entities controlled by Government of Pakistan which are not material, hence not disclosed in these financial statements. Transactions of the Company with related parties and balances outstanding at the year end are as follows:



# Notes to the Financial Statements

For the year ended 30 June 2012

	2012 (Rupees '000)	2011
<b>Associated company</b>		
Share of profit in associate - net of taxation	87,215	78,438
<b>Major shareholders</b>		
<b>Government of Pakistan</b>		
Dividend paid	22,571,788	14,490,555
<b>OGDCL Employees' Empowerment Trust (OEET)</b>		
Dividend paid	3,458,819	1,269,057
<b>Related parties by virtue of common directorship and GoP holdings</b>		
<b>Attock Refinery Limited</b>		
Sale of crude oil	65,198,668	42,579,898
Desalting charges paid	34,578	-
Trade debts as at 30 June	35,897,835	8,096,742
Trade payable as at 30 June	20,427	41,360
<b>Pakistan Refinery Limited</b>		
Sale of crude oil	10,485,555	6,940,357
Trade debts as at 30 June	14,783,530	5,255,178
<b>Government Holdings (Private) Limited (GHPL)</b>		
GHPL share (various fields)	262	112,146
Payable as at 30 June	797	200,417
<b>Pak Arab Refinery Company Limited</b>		
Sale of crude oil	15,043,736	9,381,929
Trade debts as at 30 June	14,917,637	5,334,219
<b>Sui Northern Gas Pipelines Limited</b>		
Sale of natural gas	52,807,550	50,969,405
Purchase of high BTU value gas	2,629,871	1,989,829
Qadirpur interim compression project payment	80,346	326,167
Trade debts as at 30 June	13,212,153	10,300,248
Payable as at 30 June	16,465	110,000
<b>Sui Southern Gas Company Limited</b>		
Sale of natural gas	38,762,538	34,652,371
Pipeline rental charges	46,127	34,800
Payment against supply of gas to locals	-	11,717
Trade debts as at 30 June	37,950,141	30,283,498
<b>Pakistan State Oil Company Limited</b>		
Sale of refined petroleum products	48,697	48,868
Sale of liquefied petroleum gas	30,471	-
Purchase of petroleum, oil and lubricants	3,456,159	2,971,954
Trade debts as at 30 June	1,946	49,020



# Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 (Rupees '000)	2011 (Rupees '000)
<b>RELATED PARTY TRANSACTIONS- Continued</b>			
<b>National Insurance Company Limited</b>			
Insurance premium paid		635,295	613,818
Payable as at 30 June		5,228	-
<b>National Logistic Cell</b>			
Crude transportation charges paid		1,451,726	1,745,512
Payable as at 30 June		957,870	571,060
<b>Heavy Mechanical Complex</b>			
Purchase of stores and spares		-	60,214
<b>Water and Power Development Authority</b>			
Sale of natural gas		-	10,655
Receivable as at 30 June		-	4,023
<b>Enar Petrotech Services Limited</b>			
Consultancy services		153,320	464,135
Sale of crude oil		3,083,424	1,968,773
Trade debts as at 30 June		452,912	249,877
Payable as at 30 June		24,039	29,398
<b>Other related parties</b>			
Contribution to staff benefit funds		3,187,881	2,201,266
Remuneration including benefits and perquisites of key management personnel	35.1	199,079	167,531

## 35.1 Key management personnel

Key management personnel comprises chief executive, executive directors and general managers of the Company:

	2012 (Rupees '000)	2011 (Rupees '000)
Managerial remuneration	77,108	74,554
Housing and utilities	39,205	29,070
Other allowances and benefits	50,977	34,926
Medical benefits	1,089	845
Leave encashment	2,626	2,458
Contribution to pension fund	28,074	25,678
	<u>199,079</u>	<u>167,531</u>
Number of persons	<u>25</u>	<u>26</u>

**35.2** The amounts of the trade debts outstanding are unsecured and will be settled in cash. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

# Notes to the Financial Statements

For the year ended 30 June 2012

## 36 REMUNERATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES

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

	2012		2011	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	9,896	1,624,672	1,330	1,251,240
Housing and utilities	2,340	1,043,535	893	866,538
Other allowances and benefits	5,002	1,545,535	614	897,643
Medical benefits	272	172,832	5	154,691
Leave encashment	868	19,458	324	15,789
Contribution to pension fund	-	678,607	-	438,780
	<u>18,378</u>	<u>5,084,639</u>	<u>3,166</u>	<u>3,624,681</u>
Number of persons including those who worked part of the year	3	1,602	2	1,235

- Executive means any employee whose basic salary exceeds Rs 500,000 (2011: 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 executives and certain executives were provided with free use of Company's cars in accordance with their entitlement. Certain loans to executives are provided interest free loans, refer note 16.1.2 to the financial statements.
- The aggregate amount charged in these financial statements in respect of fee to 12 directors (2011: 12) was Rs 3,360,000 (2011: Rs 4,380,000).

## 37 APPLICABILITY OF IFRIC 4 "DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE"

International Accounting Standards Board (IASB) has issued IFRIC-4 "Determining whether an Arrangement contains a Lease", which is effective for financial periods beginning on or after 01 January 2006. According to the said interpretation an arrangement conveys the right to use the asset, if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed when the purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset. Such arrangements are to be accounted for as a lease in accordance with the requirements of IAS 17- "Leases".

The Company's production facilities at Uch field's control, due to purchase of total output by Uch Power Limited (UPL) an Independent Power Producer (IPP), appears to fall in the definition of lease. However, Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 21 of 2009 has decided to defer the implementation of IFRIC 4 to all companies which have executed implementation agreements with the Government/Authority or entity, this relaxation would be available till the conclusion of their agreements, entered on or before 30 June 2010. However, impact of IFRIC-4 is mandatory to be disclosed in the financial statements as per requirements of IAS-8.



# Notes to the Financial Statements

For the year ended 30 June 2012

Had this interpretation been applied, following adjustments to profit and loss account and balance sheet would have been made:

	2012	2011
	(Rupees '000)	
Profit for the year	96,905,575	63,527,270
Amortization reversed	298,499	225,600
Finance income recognized	3,795,335	3,480,264
Addition to property, plant and equipment reversed	(92,383)	(2,106)
Addition to development and production assets reversed	(1,805,160)	(1,769,069)
Sales revenue reversed	(4,084,877)	(3,817,642)
Tax impact at estimated effective rate	549,579	553,965
Adjusted profit for the year	95,566,568	62,198,282
Carried forward balance of unappropriated profit at the end of year would have been as follows:		
Adjusted unappropriated profit brought forward	159,657,822	117,013,175
Adjusted profit for the year	95,566,568	62,198,282
	255,224,390	179,211,457
Transfer to capital reserve	(846,862)	(199,456)
Dividend paid	(30,106,500)	(19,354,179)
Adjusted unappropriated profit at end of year	224,271,028	159,657,822
Unadjusted profit	220,449,368	154,497,155

## 38 Application of IFRS 2 - Share Based Payment

On 14 August 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme (the "Scheme") for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GoP holds significant investments (non-SOEs). The Scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this Scheme, GoP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund to be created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price of listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GoP.

# Notes to the Financial Statements

For the year ended 30 June 2012

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50 % dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for the payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GoP.

The Scheme, developed in compliance with the stated GoP policy of empowerment of employees of the State Owned Enterprises need to be accounted for by the covered entities, including the Company, under the provisions of the amended International Financial Reporting Standard to share based payment (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the Securities and Exchange Commission of Pakistan on receiving representation from some of the entities covered under the scheme and after having consulted the Institute of Chartered Accountants of Pakistan vide their letter number CAIDTS/PS&TAC/2011-2036 dated 02 February 2011 has granted exemption to such entities from the application of IFRS2 to the Scheme vide SRO 587 (I)/2011 dated 07 June 2011.

Had the exemption not been granted the staff costs of the Company for the year would have been higher by Rs 6,027 million (2011: Rs 6,027 million), profit after taxation and unappropriated profit would have been lower by Rs 6,027 million (2011: Rs 6,027 million), earnings per share would have been lower by Rs 1.40 (2011: Rs 1.40) per share and reserves would have been higher by Rs 17,329 million (2011: Rs 11,301 million).

## 39 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors proposed final dividend at the rate of Rs 2.75 per share in its meeting held on 09 August 2012.

## 40 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 09 August 2012 by the Board of Directors of the Company.

## 41 GENERAL

Figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.

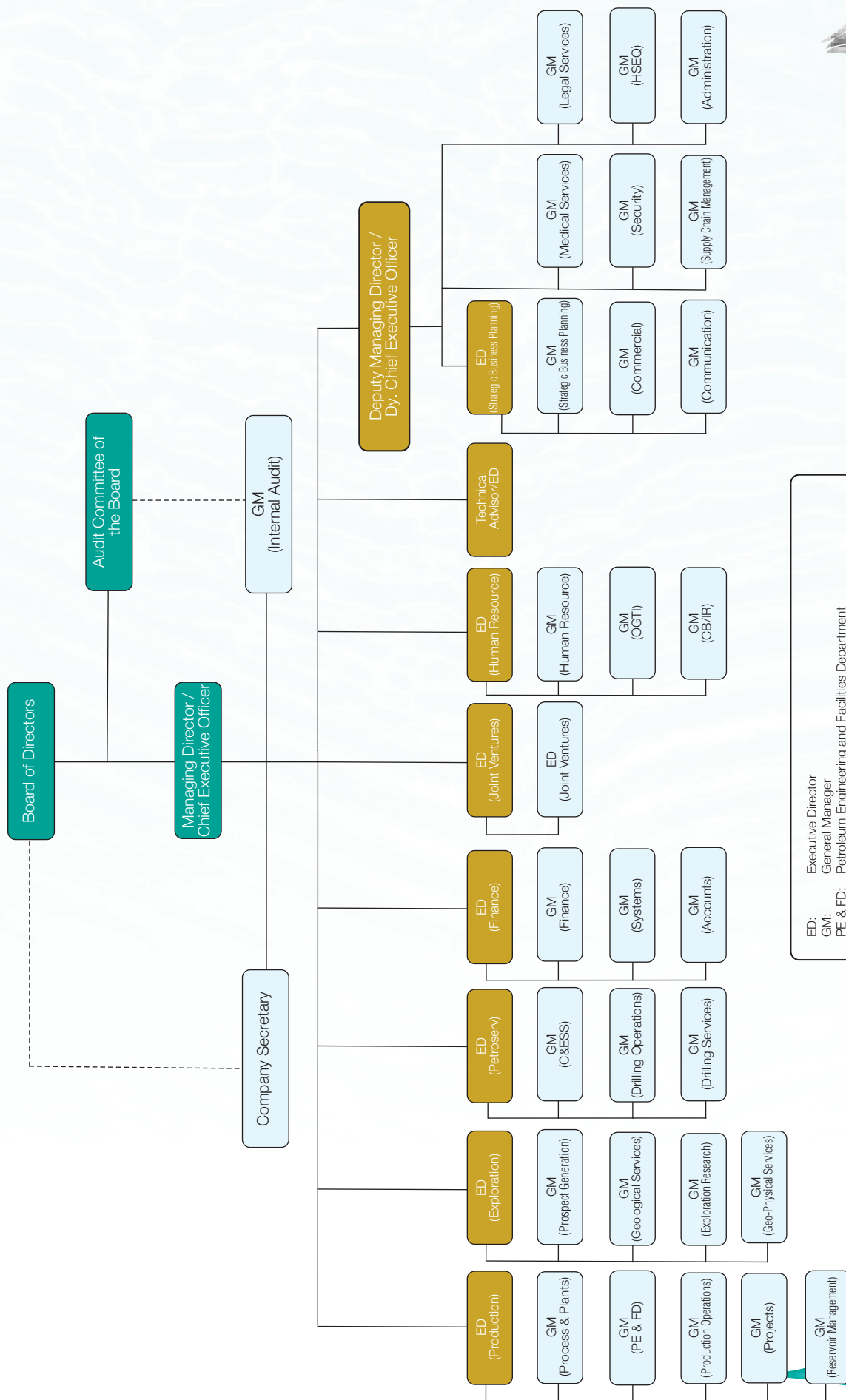


Chief Executive



Director

# Organogram



ED: Executive Director  
 GM: General Manager  
 PE & FD: Petroleum Engineering and Facilities Department  
 C & ESS: Civil & Engineering Support Services  
 OGTI: Oil & Gas Training Institute  
 OB/IR: Compensation & Benefits / Industrial Relations  
 HSEQ: Health, Safety, Environment and Quality





# Abbreviations

AEEA	Annual Environment Excellence Award	IT	Information Technology
AGM	Annual General Meeting	JJVL	Jamshoro Joint Venture Limited
ARL	Attock Refinery Limited	JV	Joint Venture
ATA	Annual Turn Around	KESC	Karachi Electric Supply Company Limited
Bbl	Barrel	Km	Kilometer
Bcf	Billion cubic feet	KPD-TAY	Kunnar Pasahki Deep-Tando Allah Yar
BESOS	Benazir Employees Stock Option Scheme	KPK	Khyber Pakhtunkhwa
BOE	Barrels of Oil Equivalent	KSE	Karachi Stock Exchange
Bopd	Barrels of oil per day	KUFPEC	Kuwait Foreign Petroleum Exploration Company
Bpd	Barrels per day	L. Km	Line Kilometer
BTU	British Thermal Unit	LPG	Liquefied Petroleum Gas
CBA	Collective Bargaining Agent	LSE	London Stock Exchange
CDC	Central Depository Company	LUMS	Lahore University of Management Sciences
CEO	Chief Executive Officer	M. Tons	Metric Tons
CNIC	Computerized National Identity Card	MD	Managing Director
CSR	Corporate Social Responsibility	MGCL	Mari Gas Company Limited
D&PL	Development and Production Lease	MIS	Management Information System
DFI	Development Finance Institution	ML	Mining Lease
DGPC	Directorate General of Petroleum Concessions	MMcf	Million cubic feet
E&P	Exploration and Production	MMcfd	Million cubic feet per day
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization	MMstb	Million stock tank barrels
EIA	Environmental Impact Assessment	MOL	MOL Pakistan Oil & Gas BV
EL	Exploration License	MP&NR	Ministry of Petroleum and Natural Resources
ENI	Eni Pakistan Limited	NBFI	Non-Banking Financial Institution
EOR	Enhanced Oil Recovery	NFEH	National Forum of Environment and Health
EPA	Environmental Protection Agency	NGL	Natural Gas Liquids
EPS	Earnings per Share	NIT	National Investment Trust
EWT	Extended Well Test	OEET	OGDCL Employees Empowerment Trust
FKPCL	Fauji Kabirwala Power Company Limited	OGDCL	Oil & Gas Development Company Limited
FY	Financial Year	OGTI	Oil & Gas Training Institute
G&G	Geological and Geophysical	OHSAS	Occupational Health & Safety Assessment Series
GAAP	Generally Accepted Accounting Principles	OMV	OMV (Pakistan) Exploration GmbH
GDS	Global Depository Shares	PAT	Profit After Taxation
GHPL	Government Holdings (Pvt.) Limited	PEL	Pakistan Exploration (Pvt.) Limited
GoP	Government of Pakistan	PIM	Pakistan Institute of Management
HSEQ	Health, Safety, Environment and Quality	PKP	Premier Kufpec Pakistan
HSFO	High Sulphur Fuel Oil	POL	Pakistan Oilfields Limited
IAS	International Accounting Standards	PPL	Pakistan Petroleum Limited
IBA	Institute of Business Administration	SCADA	Supervisory Control and Data Acquisition
ICAP	Institute of Chartered Accountants of Pakistan	SNGPL	Sui Northern Gas Pipelines Limited
ICMAP	Institute of Cost & Management Accountants of Pakistan	SOPs	Standard Operating Procedures
IEE	Initial Environmental Examination	Sq. Km	Square Kilometer
IFRIC	International Financial Reporting Interpretations Committee	SSGCL	Sui Southern Gas Company Limited
IFRS	International Financial Reporting Standards	Tcf	Trillion cubic feet
IOR	Increased Oil Recovery	TOR	Terms of Reference
IPO	Initial Public Offering	UEPL	United Energy Petroleum Limited
IR	Investors Relations	WIO	Working Interest Ownership
ISO	International Organization for Standardization		

## Form of Proxy

I / We \_\_\_\_\_ of  
\_\_\_\_\_ being a member of Oil and Gas Development Company Limited and holder of  
\_\_\_\_\_ Ordinary Shares as per Share Register Folio No. \_\_\_\_\_

For beneficial owners as per CDC List

CDC participant I.D. No: \_\_\_\_\_

[illegible]

Hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him / her  
\_\_\_\_\_ of \_\_\_\_\_ as my / our proxy to vote and act for  
me / our behalf at the 15<sup>th</sup> Annual General Meeting of the Company to be held on 04 October 2012 or at any adjournment thereof.

Revenue Stamp

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2012

Signature of Proxy \_\_\_\_\_

For beneficial owners as per CDC list

## 1. WITNESS

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

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

Address: \_\_\_\_\_

[illegible]

or Passport No: \_\_\_\_\_

Note:

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) along with proxy form to the Company.



# Entry Card

## 15<sup>th</sup> Annual General Meeting

Register Folio No: \_\_\_\_\_ Number of Shares held: \_\_\_\_\_

Name of Shareholder: \_\_\_\_\_

[illegible]

For beneficial owners as per CDC List

CDC participant I.D. No: \_\_\_\_\_

Sub-Account No: \_\_\_\_\_

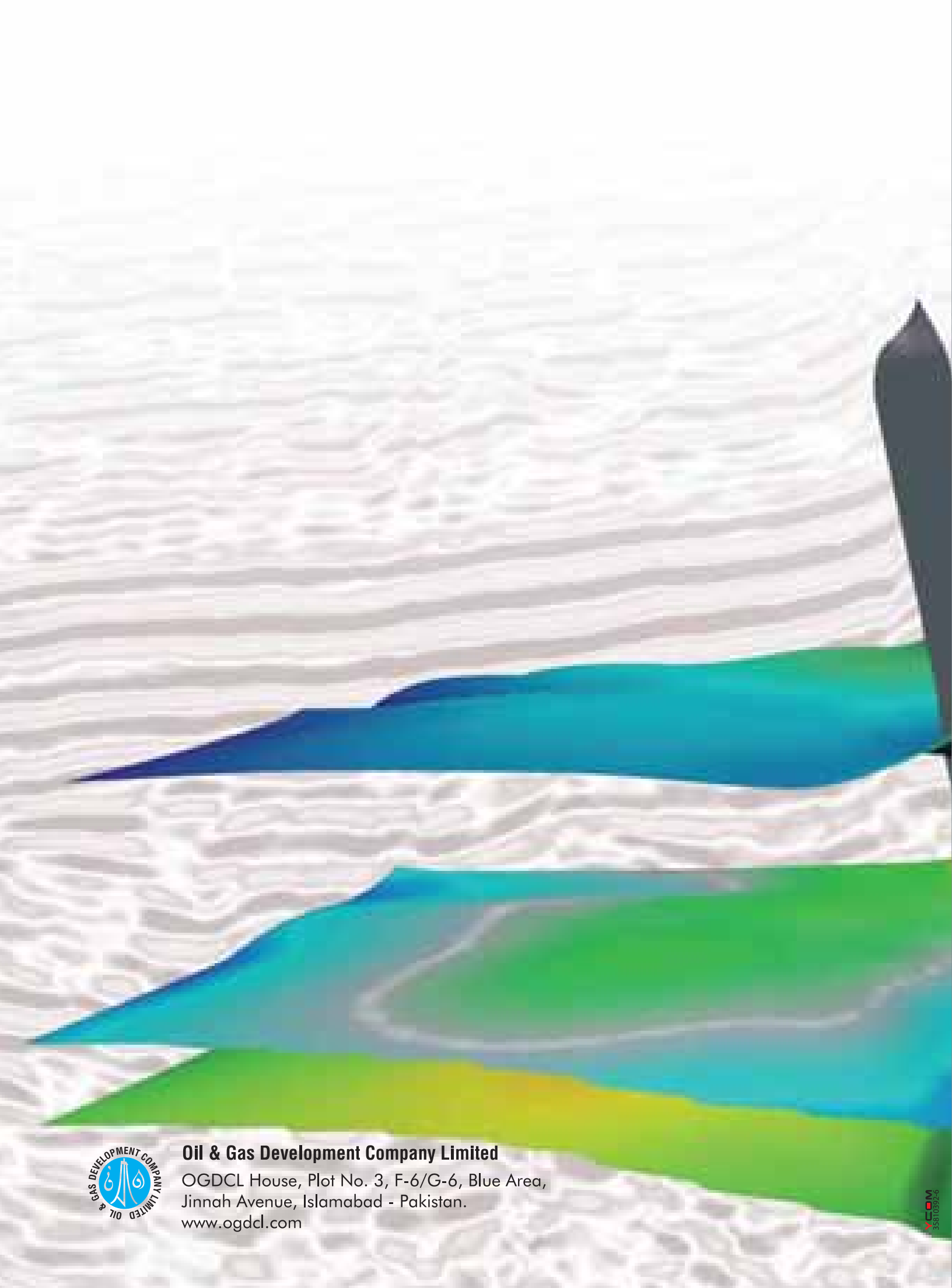
[illegible]

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

Note:

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, Plot No. 3, F-6/G-6, Blue Area,  
Jinnah Avenue, Islamabad - Pakistan.  
[www.ogdcl.com](http://www.ogdcl.com)