

Annual Report 2007

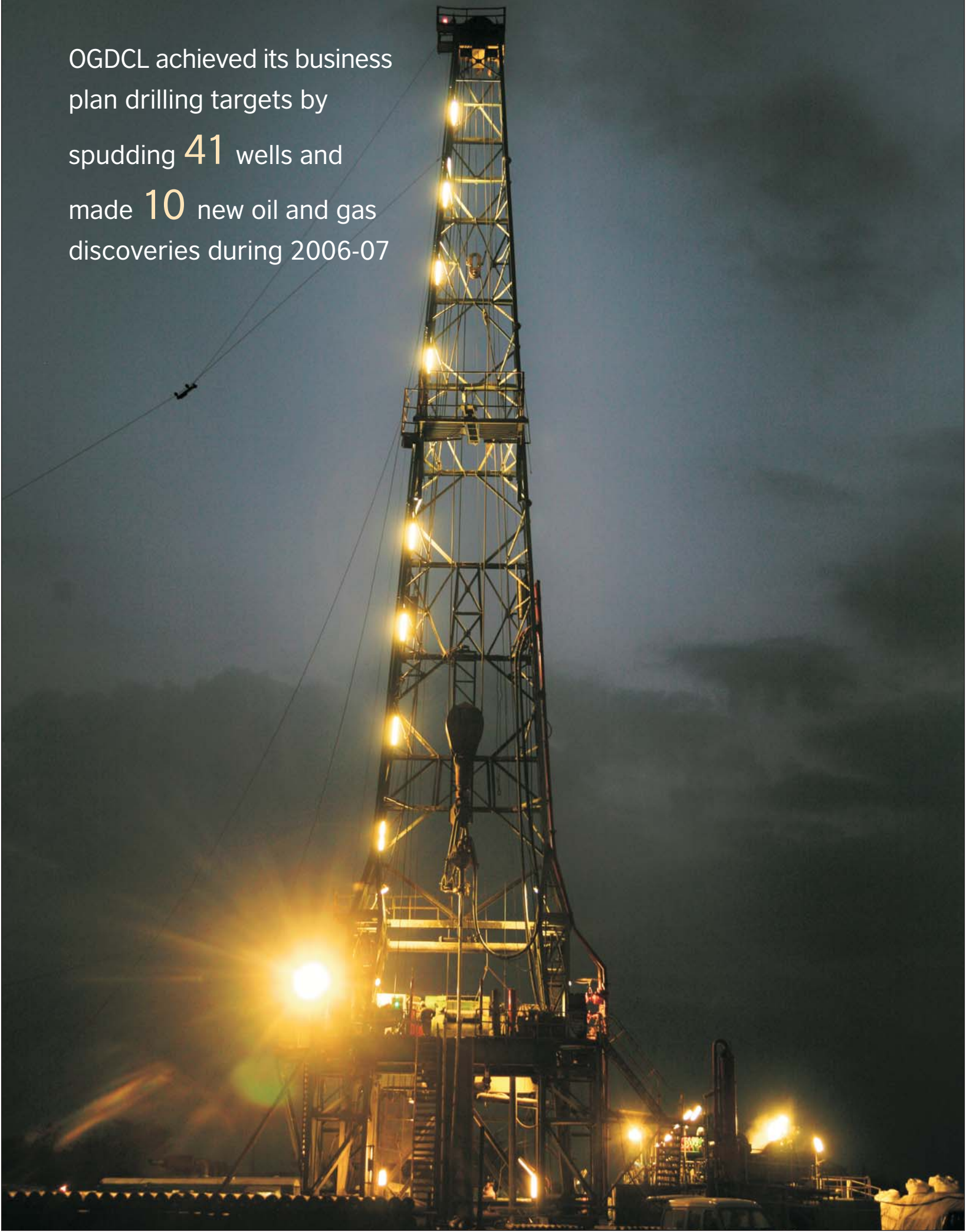
Discovering
Infinite Possibilities



OIL & GAS DEVELOPMENT COMPANY LIMITED



OGDCL achieved its business
plan drilling targets by
spudding **41** wells and
made **10** new oil and gas
discoveries during 2006-07



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Highlights of the Year

Corporate Highlights

- Government of Pakistan (GoP) divested 9.5% of the total shares of the Company through Secondary Offering in the form of Global Depository Shares (GDSs) to international and local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 0.50% of the total shares to the general public in February 2007.
- OGDCL became the first Pakistani E&P Company listed on the London Stock Exchange with effect from December 06, 2006.
- Acquisition of two new exploration licenses namely Offshore Indus - S and Offshore Indus-R over an area totaling 3,622.14 Sq Kms.
- An agreement was signed on February 9, 2007 with GHPL and Petrobras Oil & Gas B.V, assigning 50% working interest to Petrobras Oil & Gas B.V over Offshore Indus-G Block.
- OGDCL acquired 70% working interest along with the operatorship in Guddu Block from M/s IPR Transoil Corporation (IPRTOC) under an assignment agreement executed on February 17, 2007 between GHPL, OGDCL and IPRTOC.
- Execution of production sharing agreement on April 19, 2007 with GHPL over Offshore Indus-R Block.

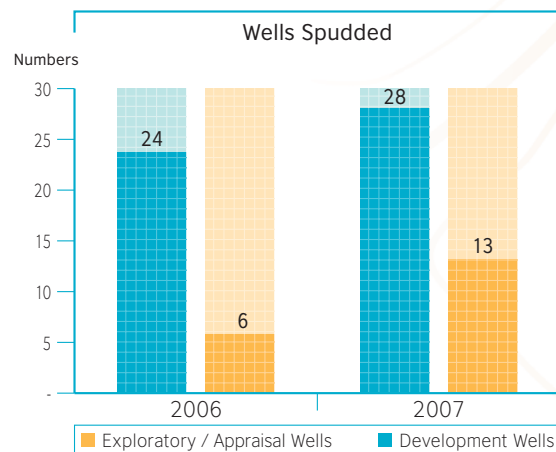
Operational Highlights

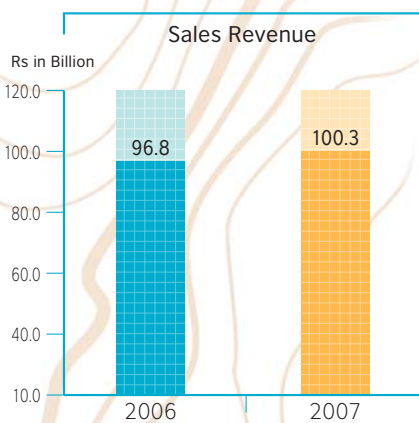
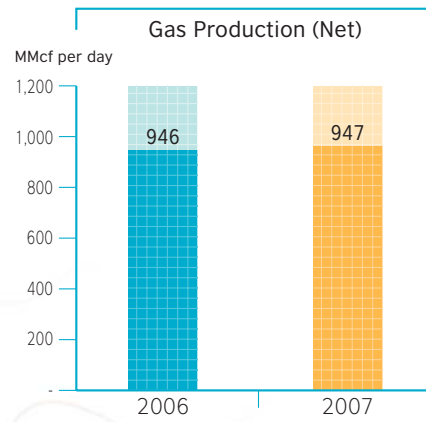
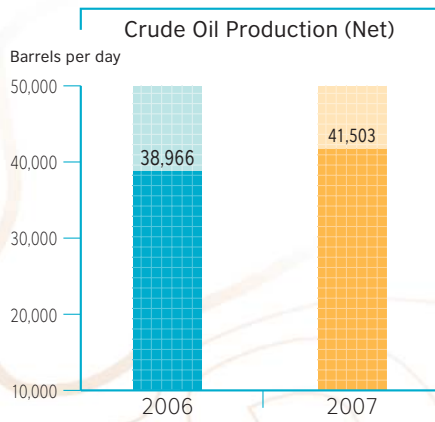
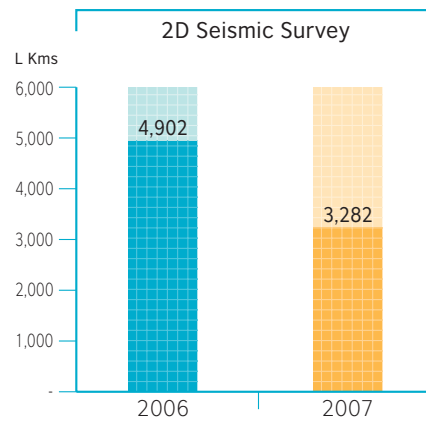
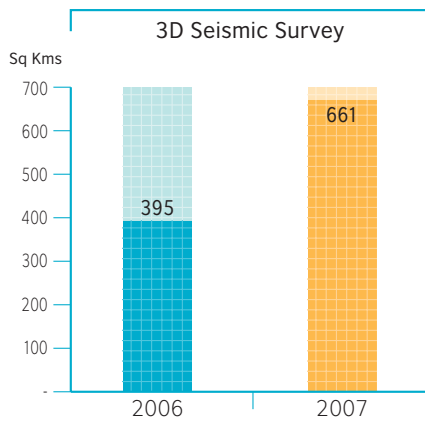
- 100% drilling targets achieved by spudding a total of 41 wells including 28 exploratory / appraisal and 13 development wells.
- 10 Oil and Gas discoveries.
- Reserves addition of 44.068 million barrels of Oil and 1,274.10 billion cubic feet (Bcf) of Gas.
- Hook-up of Mela discovery and completion of Mela Project in record time of 19 weeks.
- Crude Oil production including share from joint ventures (JVs) averaged 41,503 barrels per day.
- Gas production including share from JVs and subsidiary company averaged 947 MMcf per day.
- LPG production including share from JVs averaged 386 M.Tons per day.

- Seismic acquisition of 3,282 L. Kms of 2-D and 661 Sq Kms of 3-D.
- Commencement of production from Mela-1, Chanda-2, Pasakhi North East-1, Dakhni Deep-1, Rajjan-4A, Chak Dim 5 South-1, Mithrao-1, Qadirpur-26 & 28 and Dhodak-10A.

Financial Highlights

- Sales revenue increased by 3.6 % to Rs 100.3 billion (2005-06: Rs 96.8 billion).
- Net realized prices of crude oil and gas averaged US\$ 51.86 / bbl and Rs 144.12 / Mcf respectively (2005-06: US\$ 50.78 / bbl and Rs 152.88 / Mcf).
- Profit before and after taxation stood at Rs 61.1 billion and Rs 45.6 billion respectively (2005-06: Rs 65.9 billion and 46.0 billion).
- Earnings per share Rs 10.61 (2005-06: Rs 10.69).
- Dividend Rs 9.00 per share (2005-06: Rs 9.00 per share).
- Total assets increased to Rs 129.3 billion from Rs 121.3 billion.
- Contribution to national exchequer was Rs 78.1 billion (2005-06: Rs 79.5 billion).





Notice of Annual General Meeting

Notice is hereby given that the 10th Annual General Meeting being Nineteenth meeting of the members of **Oil and Gas Development Company Limited** will Insha-Allah be held at registered office of the Company, OGDCL House, Plot No: 3, F-6/G-6, Blue Area, Jinnah Avenue, Islamabad on Friday, September 28, 2007 at 10.00 a.m. to transact the following business:

Ordinary Business

- 1) To confirm the minutes of the 9th Annual General Meeting held on September 29, 2006.
- 2) To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2007 together with the Directors' and Auditors' Reports thereon.
- 3) To approve the final cash dividend @ 35.0% i.e. Rs 3.50 per share for the year ended June 30, 2007 as recommended by the Board of Directors. This is in addition to three interim cash dividends totaling to 55.0% i.e. Rs 5.50 per share already paid during the year.
- 4) To appoint Auditors for the year 2007-08 and fix their remuneration. The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s M. Yousuf Adil Saleem & Co., Chartered Accountants will stand retired on the conclusion of this meeting.
- 5) To transact any other business with the permission of the Chair.

By order of the Board

Islamabad
Date: August 22, 2007

(Basharat A. Mirza)
Company Secretary

NOTES:

1- Participation in the Annual General Meeting

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

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

a. For attending the meeting

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

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

b. For appointing proxies

- i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per CDC 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 CNICs or the passports of the beneficial owners and of the proxy shall be furnished with the proxy form.
- iv) The proxies shall produce their original CNICs or original passports at the time of the meeting.
- v) In the case of corporate entities, 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.

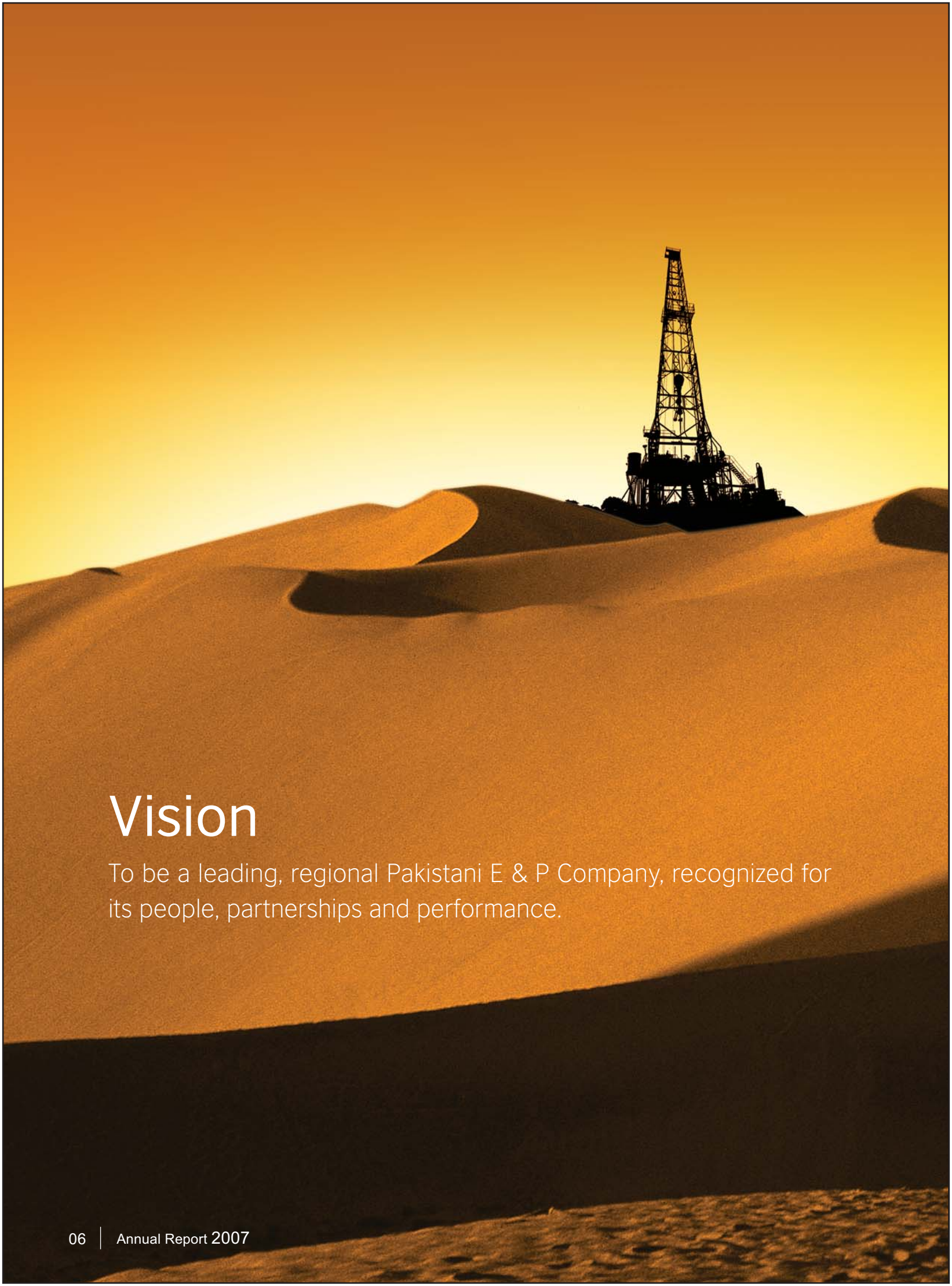
3- Closure of Share Transfer Books

The share transfer books of the Company will remain closed and no transfer of shares will be accepted for registration from September 21, 2007 to September 28, 2007 (both days inclusive). Transfers received in order at the Share Registrars' office by the close of business on September 20, 2007 will be treated in time for the purpose of payment of final cash dividend, if approved by the Shareholders.

4- Change in Address

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





Vision

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



Mission

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

Core Values

- Merit
- Integrity
- Teamwork
- Safety
- Dedication
- Innovation



Drilling Operations at Mela - 2

Goals

Financial

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

Learning and Growth

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

Customer

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

Internal Process

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



Operational Activities - Chanda Field





Statement of Ethics and Business Practices (SE & BP)

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

1. The directors and employees of the Company seek to protect the Company's assets. The Company's assets and services are used solely for legitimate business purposes of the Company. The use of Company's funds for political contributions to any organization or to any candidate for public office is prohibited.
2. The directors and employees adhere in letter and spirit to all laws and conform to the accepted standards of good corporate governance and avoid conflict of interest. The conflict of interest, if any must be notified to the Company in writing immediately.
3. The Company respects the interests of all the stakeholders and enters into transparent and fairly negotiated contracts.
4. The Company is an equal opportunity employer.

5. The directors and employees reject corruption in all forms - direct, indirect, public or private and do not directly or indirectly engage in bribery, kick-backs, payoffs, or any other corrupt business practices.
6. Oil and Gas Development Company Limited respects the privacy of data relating to individual persons (whether employees or third parties) which it may hold or handle as part of its information processing activities or otherwise. Employees maintain confidentiality of the Company's and its customers' confidential information which is disclosed to them.
7. The directors and employees shall not place themselves in a position where their loyalty to the Company becomes divided for any reason including their direct or indirect financial interest in a competitor, supplier, consultant or customer.
8. The directors and employees may not take advantage of the Company's information or property, or their position with the Company, to develop inappropriate personal gains or opportunities. They may, however, receive gifts of token value or accept invitations only if such gifts or invitations have no influence on their decision making and are as per Company policy.
9. Employees may offer tips, gratuity or hospitality of a customary amount or value for routine services or courtesies received as per Company policy.

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





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Corporate Information

Board of Directors

Mr. Arshad Nasar
Chairman/CEO

Mr. Muhammad Naeem Malik
Mr. Jalaluddin Qureshi
Mr. Alman Aslam
Mr. Asad Umar
Mr. Aslam Khaliq
Mr. Azam Faruque
Mr. Khalid Rafi
Mr. Zahid Majid
Mr. Sikandar Hayat Jamali
Al-Syed Abdul Qadir Jamaluddin Al-Gillani

Company Secretary

Mr. Basharat A. Mirza

Auditors

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

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

Legal Advisor

M/s Khokhar Law Chambers

Tax Advisors

M/s Khalid Majid Rahman Sarfraz Rahim Iqbal Rafiq,
Chartered Accountants

Bankers

National Bank of Pakistan
Habib Bank Limited
United Bank Limited
Askari Bank Limited
Allied Bank Limited
Citi Bank
Bank Al-Falah Limited
Faysal Bank Limited
Meezan Bank Limited
The Bank of Punjab
Bank Al-Habib Limited
Soneri Bank Limited
PICIC Commercial Bank Limited
Prime Commercial Bank Limited
MCB Bank Limited
Habib Metropolitan Bank Limited
Standard Chartered Bank (Pakistan) Limited
ABN Amro Bank
NIB Bank Limited
Saudi Pak Commercial Bank Limited

Registered Office

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

Registrar

Noble Computer Services (Pvt) Limited,
2nd Floor, Sohni Centre, BS 5&6, Main Karimabad,
Block 4, Federal B. Area, Karachi-75950
Tel: (021) 6801880-82 (3 Lines)
Fax: (021) 6801129



Board of Directors



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



Mr. Muhammad Naeem Malik is the Director General Petroleum Concessions, the regulator office for upstream Oil and Gas business in Pakistan. Mr. Malik has 25 years of experience in the public and private petroleum sector. He is a Chemical Engineer by profession,



Mr. Jalaluddin Qureshi who expired on August 23, 2007, was Joint Secretary in the Ministry of Finance and Financial Advisor for the Ministry of Petroleum and Natural Resources and Ministry of Water and Power. Mr. Qureshi had a Bachelor's in Commerce, LLB and a Masters in Accounting.



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



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



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



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



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



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



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



Al-Syed Abdul Qadir Jamaluddin Al-Gilani is a member of the National Assembly of Pakistan. A landlord by profession, holding a Master's degrees in International Relations and Political Science.



Committees of the Board

Audit Committee

Mr. Khalid Rafi
Mr. Jalaluddin Qureshi
Mr. Alman Aslam
Mr. Aslam Khaliq
Mr. Zahid Majid
Head of Internal Audit

Chairman
Member
Member
Member
Member
Secretary

Finance Committee

Mr. Alman Aslam
Mr. Arshad Nasar
Mr. Azam Faruque
Mr. Sikandar Hayat Jamali
Al-Syed Abdul Qadar Jamaluddin Al-Gillani
Company Secretary

Chairman
Member
Member
Member
Member
Secretary



Participants of the Board of Directors meeting held on August 22, 2007

Human Resources Committee

Mr. Arshad Nasar	Chairman
Mr. Muhammad Naeem Malik	Member
Mr. Asad Umar	Member
Mr. Sikandar Hayat Jamali	Member
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Member
Company Secretary	Secretary

Technical Committee

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





V-9000A

V-9000B

Company Profile

OGDCL is the largest Exploration and Production (E&P) Company in Pakistan engaged in exploration and development of oil and gas resources, including production and sale of oil, gas and related activities.

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 October 23, 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 the 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) to international and local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 0.50% of the total shares to the general public in February 2007. Accordingly, GoP owns 85.02% of the shares of the Company as of June 30, 2007.

OGDCL became the first Pakistani E&P Company listed on the London Stock Exchange with effect from December 06, 2006.

Over the years OGDCL has developed into a premium up-stream company, whose strength lies mainly in its highly qualified professional human resource base. The Company has a sound equipment and operational base including drilling and workover rigs, geological, seismic and engineering crews, gas gathering and pipeline construction unit, seismic data processing centre, geological analysis laboratory, wireline, cementation and data logging units. The Company also operates oil and gas processing plants, a mini refinery and LPG and Sulphur recovery units.

OGDCL's concessions portfolio as of June 30, 2007 stood at 42 own and operated JV exploration licenses covering an area of 80,584.48 Sq Kms which is 33% of the total Country's exploration acreage which is the largest exploration acreage held by any single company in Pakistan. In addition OGDCL also holds working interest in another 5 exploration licenses operated by other joint venture partners.

OGDCL has 40 development and production / mining leases which are operated by it besides working interest ownership in 13 non-operated leases.

OGDCL's remaining recoverable reserves as of June 30, 2007 stood at 159.17 million barrels of oil and 10,869.92 billion cubic feet of gas.

During the year 2006-07, OGDCL's share in Country's oil and gas production remained at 54% and 22% respectively. Its daily production from its own fields and share in operated and non-operated joint venture fields averaged 41,503 barrels of oil and 947 MMcf of gas. The Company also produced 386 M.Tons of LPG and 66 M. Tons of Sulphur on daily basis.

Financial Year 2006-07 will be recorded as a year of milestone achievements for the Company. The Company fulfilled its business plan targets by spudding 41 exploratory/appraisal and development wells and achieved 2-D seismic of 3,282 L. Kms and 3-D seismic of 661 Sq Kms. Besides enhancing its crude oil production, the Company achieved another milestone when it made ten oil and gas discoveries during the year.

OGDCL's financial position has consistently been improving. Its profitability and liquidity position is exceptionally strong and has sound cash growth from its existing production assets to carry out its aggressive exploratory and development programs. During 2006-07, Company's sales revenue surpassed Rs100 billion mark and it earned net profit of Rs 45.63 billion. Total assets of the Company were Rs 129.34 billion as of June 30, 2007. OGDCL is contributing substantial amount to the national exchequer on account of Royalty, Duties and Taxes, Dividend and Corporate Tax. During 2006-07 its contribution to national exchequer stood at Rs 78.08 billion.

OGDCL is vital to the economy of Pakistan and in the years ahead will continue to play its role as a dynamic and growing E&P Company.



Monitoring well head control system at Chanda Oil Field



Leadership Team



From left to right:

Mr. Shahzad Saddam

Executive Director
(Human Resources)

Mr. Najam K. Hyder

Executive Director
(Corporate Affairs & Production)
(Retired on 2 Aug. 2007)

Mr. Aftab Ahmad

Executive Director
(Finance & Joint Venture)

Mr. Tahir Azizuddin

Executive Director
(Petroserve)

Mr. Arshad Nasar

Chairman & CEO



From left to right (sitting) :

Mr. Tahir Azizuddin
Executive Director
(Petroserve)

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

Mr. Najam K. Hyder
Executive Director
(Corporate Affairs & Production)

Mr. Shahzad Saddam
Executive Director
(Human Resources)

Mr. Arshad Nasar
Chairman & CEO

From left to right (standing) :

Dr. Fawad Rauf
GM (System Support)

Brig (Retd.) M. A. Asif Sirhindi
GM (Administration)

Mr. M. Zafar Chaudhry
GM (Projects)

Mr. Shamim Iftikhar Zaidi
AGM (Drilling Operations)

Mr. Khalid Jamil Khan
GM (Supply Chain Management)

Mr. Basharat A. Mirza
GM / Company Secretary

Mr. Muhammad Rafi
GM (Finance)

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

Mr. Afzal Chaudhry
GM (Petroleum Research & Training Inst.)

Mr. Tariq Majeed Jaswal
GM (Exploration)



Exploration Licenses

Held by OGDCL as on June 30, 2007

Sr. No.	Blocks	Districts / Provinces	Area (Sq Kms)	Date of Grant
OGDCL 100% OWN CONCESSIONS				
1	Dhudial	Chakwal & Rawalpindi, Punjab	313.53	08-11-03
2	Fateh Jang	Islamabad, Rawalpindi & Attock, Punjab	2,136.46	05-11-02
3	Indus Delta-A	Offshore Area	2,499.01	23-10-04
4	Jandran	Loralai, Barkhan & Kohlu Agency, Balochistan	408.00	20-09-89
5	Rachna	Layyah, Jhang, Tobatek Singh, Khanewal & Muzaffar Garh, Punjab	2,436.47	08-11-03
6	Saruna	Khuzdar & Lasbella, Balochistan	2,431.62	17-02-04
7	Shahana	Kharan & Panjgur, Balochistan	2,445.06	29-12-04
8	Multan North	Layyah, Jhang, Khanewal, Multan & Muzaffar Garh, Punjab	2,498.97	11-02-05
9	Multan South	Khanewal, Vihari, Lodhran & Multan, Punjab	2,480.78	11-02-05
10	Indus-G	Offshore Area	7,466.02	
11	Dhok Sultan	Attock, Rawalpindi, Mianwali & Kohat, Punjab & NWFP	703.23	06-07-05
12	Samandar	Awaran & Uthal, Balochistan	2,495.33	06-07-05
13	Bagh-o-Bahar	Rahim Yar Khan & Bahawalpur, Punjab	2,499.13	20-09-05
14	Thatta	Thatta, Sindh	2,438.85	20-09-05
15	Bagh South	Jhang, Tobatek Singh, Khanewal, Sahiwal & Vihari, Punjab	2,497.05	24-10-05
16	Thatta East	Thatta, Sindh	2,459.39	24-10-05
17	Khiranwala	Bahawalpur & Rahim Yar Khan, Punjab	2,497.35	24-10-05
18	Pakhiwala	Rahim Yar Khan, Punjab	2,495.29	24-10-05
19	Latamber	Waziristan Agency, Karak & Banuu, NWFP	331.47	24-10-05
20	Tigani	Shikarpur, Jacobabad & Sukkur, Sindh	270.60	13-02-06
21	Thano Beg	Lasbela, Dadu & Karachi, Balochistan & Sindh	2,404.73	13-02-06
22	Thal	Khairpur, Sukkur & Ghotki, Sindh	1,622.67	13-02-06
23	Chakral	Chakwal & Rawalpindi, Punjab	302.32	31-05-06
24	Wali	North & South Waziristan Agencies, Banuu & Lakki Marwat, NWFP	2,179.26	31-05-06
25	Mianwali	Mianwali, Chakwal & Khushab, Punjab	2,280.91	31-05-06
26	Soghri	Kohat & Attock, NWFP & Punjab	588.09	31-05-06
27	Offshore Indus-S	Offshore Area	2,129.91	23-03-07
28	Offshore Indus-R	Offshore Area	1,492.23	19-04-07
			56,803.73	
OGDCL OPERATED JOINT VENTURE CONCESSIONS (OGDCL 95% & GHPL 5%)				
1	Bitrisim	Nawabshah & Khairpur, Sindh	1,819.72	27-09-97
2	Khewari	Nawabshah & Khairpur, Sindh	1,276.40	29-12-99
3	Nim	Tharparkar & Hyderabad, Sindh	295.03	23-11-04
4	Tando Allah Yar	Hyderabad, Sindh	403.34	27-09-97
5	Zin	Mari Baugti, Nasirabad & Kachhi, Balochistan	5,559.74	15-08-99
			9,354.23	
OGDCL OPERATED JOINT VENTURE CONCESSIONS (with other E & P companies)				
1	Gurgalot	Kohat & Attock, NWFP & Punjab	385.84	28-06-00
2	Kotra	Khuzdar & Kachhi, Balochistan	663.92	16-12-00
3	Nashpa	Attock, Mianwali, Kohat, Karak & N.W. Agency, Punjab & NWFP	979.69	16-04-02
4	Sinjhero	Sanghar & Khairpur, Sindh	1,283.43	29-12-99
5	Zamurdan	D.G. Khan & Rajanpur, Punjab	2,080.58	17-02-04
6	Kalchas	Kohlu, Dera Bugti & D.G. Khan, Balochistan & Punjab	2,068.32	29-12-04
7	Kohlu	Kohlu, Dera Bugti & Barkan, Balochistan	2,459.11	29-12-04
8	Dhermund	Attock, Mianwali, Chakwal & Khushab, Punjab	2,412.23	15-07-05
9	Guddu	Rajanpur, Rahim Yar Khan, Sukkur & Jacobabad, Sindh & Punjab	2,093.40	17-02-07
			14,426.52	
Total Area			80,584.48	

Sr. No.	Blocks	Districts / Provinces	Area (Sq Kms)	Date of Grant	Date of Expiry	Working Interest
Non-Operated Joint Ventures						
1	Block-28	Sibbi, Kohlu & Loralai, Balochistan	6,200.00	14-01-91	Force Majure	Tullow 95%, OGDCL 5%
2	Kohat	Kohat & Hangu, NWFP & Tribal Areas	1,107.21	27-04-05	26-04-08	Tullow 45%, OGDCL 30%, TPOPL 15%, SEL 10%
3	Bunnu West	Bannu, Hangu, Waziristan & Kurram Agencies, NWFP & Tribal Areas	1,229.57	27-04-05	26-04-08	Tullow 40%, OGDCL 40%, TPOPL 10%, SEL 10%
4	Tal Block	Kohat, Karak & Hangu, NWFP & Tribal Areas	3,714.78	11-02-99	10-03-08	MOL 10%, OGDCL 30%, PPL 30%, POL 25%, GHPL 5%
5	Sari South	Dadu & Thatta, Sindh	535.33	25-10-05	24-10-08	SEL 30%, OGDCL 50%, OMV 20%
Total Area			12,786.89			



Slug Catcher at Qadirpur Gas Field



Ten Years at a Glance

		1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Operational Performance							
Seismic Survey - 2D	L Kms	1,710	2,730	1,884	1,258	2,395	2,502
- 3D	Sq Kms	-	-	-	-	-	-
Exploratory & Development Wells Spudded	Numbers	13	9	9	5	10	17
Oil & Gas Discoveries	Numbers	3	-	1	-	2	6
Quantity Sold							
Crude Oil	Thousand BBL	7,924	8,074	8,907	8,535	8,705	9,413
Gas	MMcf	124,363	115,967	161,534	217,927	245,537	274,006
LPG	M.Tons	85,780	90,425	93,004	77,402	93,136	90,304
Sulphur	M.Tons	15,640	29,880	13,445	16,670	23,234	15,889
White Petroleum Products	Thousand BBL	969	1,000	1,038	998	989	859
Financial Results							
	Rs in billion						
Net Sales		16.22	14.23	25.30	38.30	39.81	45.07
Other Revenues		0.61	0.60	0.91	1.60	2.04	1.99
Profit Before Tax		7.43	4.77	12.95	23.23	25.69	26.42
Profit After Tax		4.48	4.55	10.56	16.50	16.77	20.67
Dividend Declared		-	1.08	2.15	6.67	10.75	12.90
Balance Sheet							
	Rs in billion						
Share Capital		10.75	10.75	10.75	10.75	10.75	10.75
Reserves		19.20	22.68	31.08	40.92	46.94	54.71
Non Current Liabilities		10.99	10.24	9.53	5.12	10.51	13.01
Current Liabilities		14.34	10.81	7.85	10.97	7.14	6.46
Total Equity & Liabilities		55.27	54.49	59.22	67.76	75.34	84.92
Property, Plant and Equipment		18.57	19.12	18.24	17.10	17.85	19.27
Exploration, Evaluation, Development & Production Assets		9.24	9.40	9.92	10.67	15.77	17.40
Stores Held for Capital Expenditure		0.79	1.03	0.90	0.99	0.95	0.87
Long Term Investments, Loans, Receivables & Prepayments		0.79	0.82	0.86	0.88	4.09	3.35
Current Assets		25.89	24.13	29.29	38.12	36.68	44.04
Total Assets		55.27	54.49	59.22	67.76	75.34	84.92
Key Indicators							
Earnings per Share (EPS)	Rupees	1.04	1.06	2.45	3.84	3.90	4.81
Operating Profit Margin	%	42	29	48	56	59%	54
Net Profit Margin	%	28	32	42	43	42%	46
Current Ratio	Times	1.81	2.23	3.73	3.48	5.14	6.82
Quick Ratio	Times	1.32	1.58	2.94	2.94	4.24	5.88
Debtor Turnover Ratio	Times	1.49	1.24	2.60	3.07	2.84	3.46
Total Assets Turnover Ratio	%	32	26	44	60	56	56
Return on Average Capital Employed	%	16	15	26	34	31	34
Return on Assets	%	9	8	19	26	23	26
Break-up Value per Share	Rupees	6.96	7.77	9.73	12.01	13.41	15.22
Market Price per Share - As on June 30	Rupees	-	-	-	-	-	-
Price Earning Ratio	Times	-	-	-	-	-	-
Dividend per Share	Rupees	-	0.25	0.50	1.55	2.50	3.00
Dividend Pay out Ratio	%	-	24	20	40	64	62
Dividend Yield Ratio	%	-	-	-	-	-	-
Contribution to National Exchequer	Rs in billion	4.60	9.01	16.19	25.81	32.99	34.66

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

2003-04	2004-05	2005-06	2006-07
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2,060	1,891	4,902	3,282
148	262	395	661
17	18	30	41
2	3	5	10

9,941	13,045	12,956	13,930
277,408	329,385	336,059	337,430
101,322	120,063	128,654	139,480
18,917	25,884	22,006	16,638
890	885	959	895

51.33	73.71	96.76	100.26
1.31	2.28	4.25	3.62
30.52	49.02	65.91	61.06
22.41	32.97	45.97	45.63
17.20	32.26	38.71	38.71

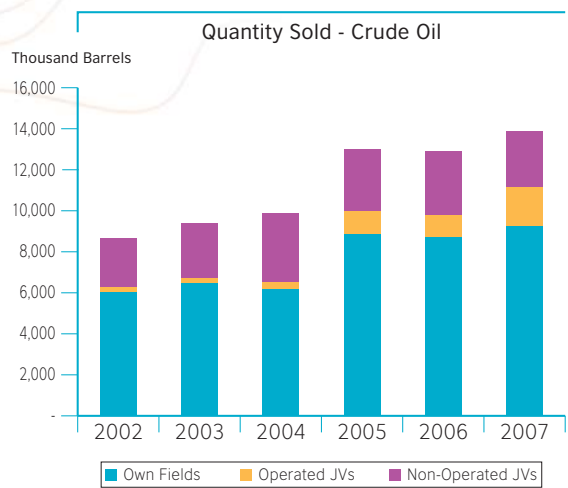
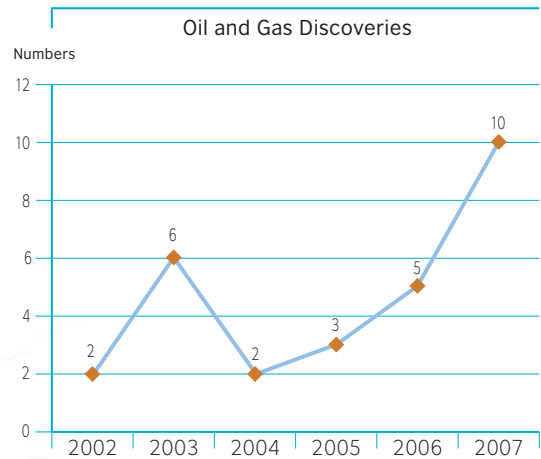
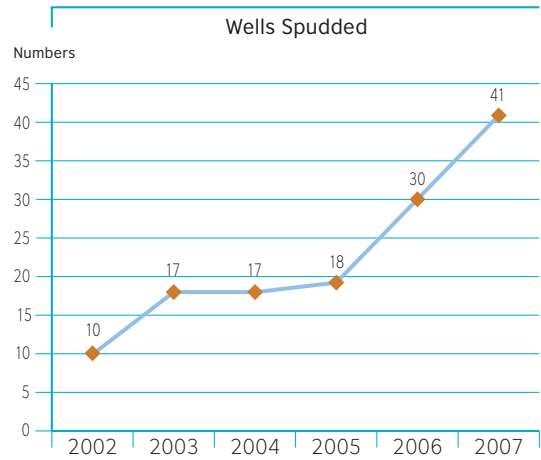
43.01	43.01	43.01	43.01
33.04	40.20	51.76	57.61
15.58	17.84	15.65	17.60
4.36	13.53	10.89	11.12
95.99	114.58	121.31	129.34
19.24	19.69	20.25	21.60

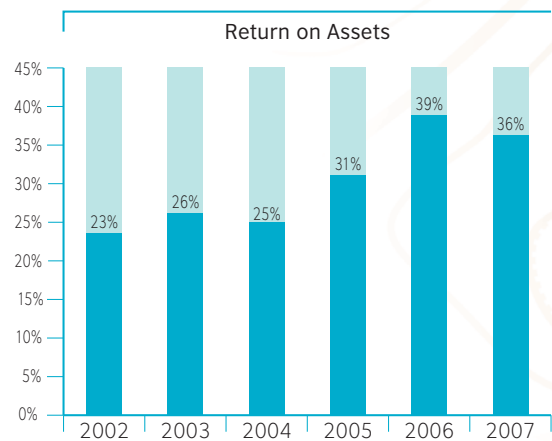
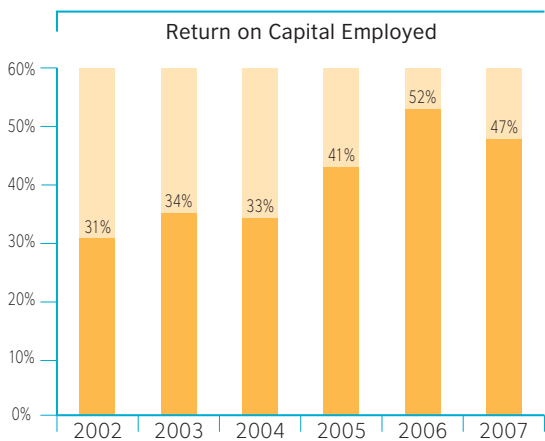
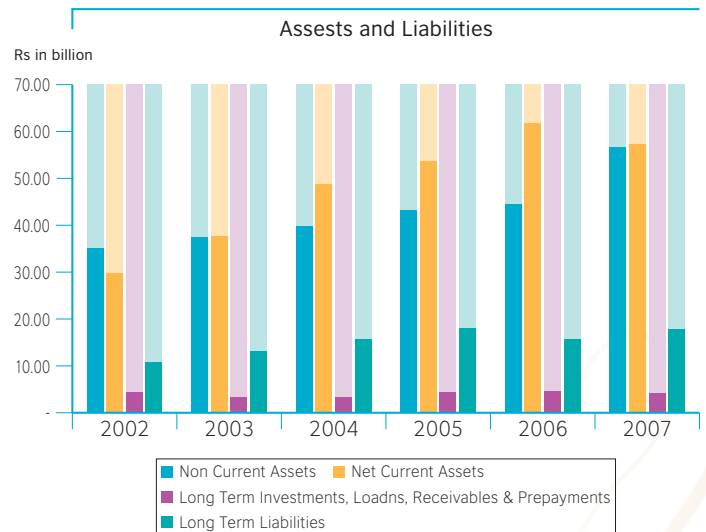
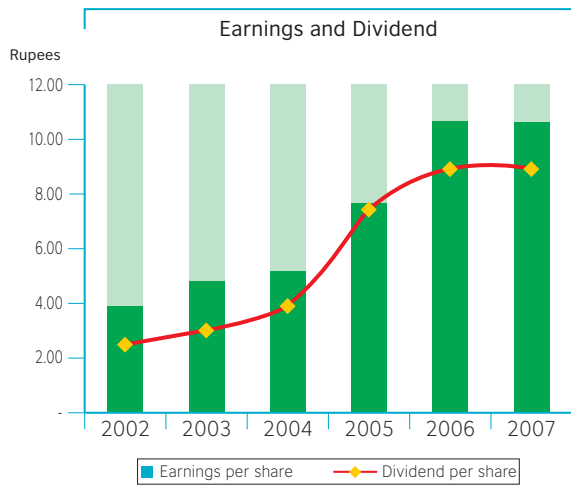
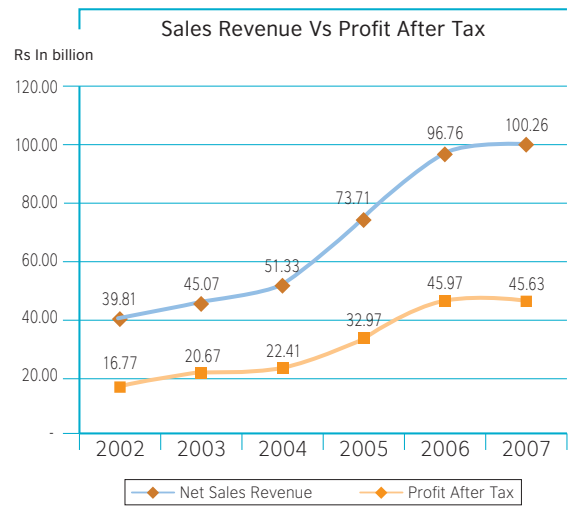
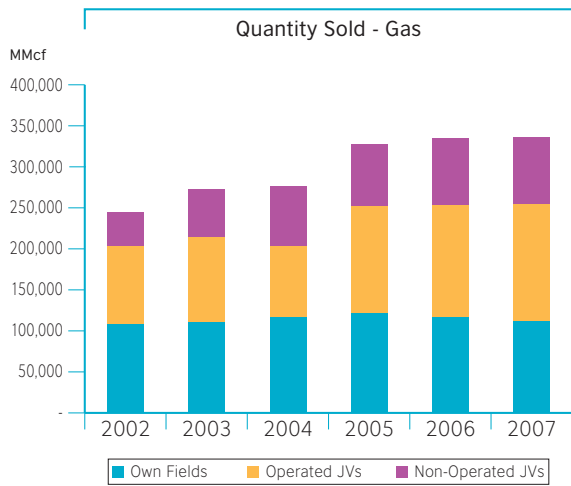
19.74	22.76	26.00	35.12
0.74	0.80	-	-

3.18	4.22	4.21	4.10
53.09	67.11	70.85	68.52
95.99	114.58	121.31	129.34

5.21	7.67	10.69	10.61
57	63	64	57
44	45	48	46
12.17	4.96	6.51	6.16
10.32	4.40	5.46	4.97
3.92	4.65	4.50	3.83
57	70	82	80
33	41	52	47
25	31	39	36
17.68	19.35	22.03	23.39
64.50	105.30	136.75	119.80
12.38	13.73	12.79	11.29
4.00	7.50	9.00	9.00
77	98	84	85
6	7	7	8

38.89	61.03	79.46	78.08
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Directors' Report



Arshad Nasar
Chairman & CEO

The Company recorded milestone achievements by meeting its drilling targets, surpassing seismic targets and discovering ten new oil and gas fields. Continuing growth in oil production during the year reflected successful development drilling, workovers and even more significantly, successful field development strategy.

We are delighted to present the annual report and the audited financial statements of Oil & Gas Development Company Limited (OGDCL) for the year ended June 30, 2007 together with Auditors' Report thereon.

2006-07 was another outstanding year for OGDCL in terms of its operational activities and financial results. The Company recorded milestone achievements by meeting its drilling targets, surpassing seismic targets and discovering ten new oil and gas fields. Continuing growth in oil production during the year reflected successful development drilling, workovers and even more significantly, successful field development strategy, where new fields and wells like Mela-1, Chanda-2, Pasakhi North East-1, Dakhni Deep-1, Rajian-4A, Chak Dim South-1, Mithrao-1, Qadirpur-26 & 28, and Dhodak-10A were brought into production. These achievements reflected that OGDCL has maintained its position as top performer in the E&P sector of the Country.

The Company fulfilled its business plan drilling targets by spudding 41 wells during 2006-07 as compared with 30 wells in 2005-06 and 18 wells in 2004-05. The Company also overshot its 2-D business plan seismic target by 14% to 3,282 L Kms and registered a 67% increase in its 3-D seismic achievement from 395 Sq Kms in financial year 2005-06 to 661 Sq Kms in 2006-07. Company's production including its share in operated and non-operated fields averaged at 41,503 barrels per day of oil and 947 MMcf per day of gas compared with 38,966 barrels per day of oil and 946 MMcf per day of gas during 2005-06. Gas production includes production of 19 MMcf per day from its subsidiary company, Pirkoh Gas Company (Private) Limited, compared with 23 MMcf per day in 2005-06. During 2006-07, OGDCL made ten oil and gas discoveries as compared to five in 2005-06 and only three in 2004-05. Out of these ten discoveries, eight were in Sindh, and one each in Punjab and NWFP provinces.

Financial results of the Company remained stable with a growth of 3.6% in sales revenue resulted from combination of increased sale volume and prices of crude oil, Naphtha and LPG. Despite increase in sales revenue profit before tax declined to Rs 61.059 billion mainly due to increase in operating, exploration and prospecting expenditure resulting in slight decline in earnings per share from Rs 10.69 to Rs 10.61.

Secondary Offering

Another significance of the year was the divestment of 10% of total shares of OGDCL by the Government of Pakistan (GoP) through secondary offering and the listing of the Company on the London Stock Exchange (LSE). Government of Pakistan (GoP) divested 9.5% of total shares of the Company in December 2006 through Secondary Offering in the form of Global Depository Shares (GDS) to international and local institutional investors. The transaction was handled by a consortium of companies, as underwriters / joint lead managers, which included Goldman Sachs, Citigroup and BMA Capital. The offer was priced at Rs 115 per ordinary share and US\$18.90 per Global Depository Share

(GDS), with each GDS representing 10 ordinary shares of OGDCL. At the offering size, the transaction was approximately two times oversubscribed. Unconditional trading of the GDSs started on the LSE with effect from December 6, 2006. The demand was generated from a broad range of institutional investors from United States, United Kingdom, Asia and the Middle East, as well as from the domestic Pakistani institutional market. Approximately 95% of the institutional offer was allocated to international institutional investors.

In addition, GoP also divested 0.5% of total shares to the general public in February 2007. The domestic retail offer of 21,505,000 shares of OGDCL was on a fixed price subscription basis, with the offer price set at Rs 110 per share. The shareholding of GoP in OGDCL now stands at 85.02% of the total paid up capital of the Company.

Award Conferred

We are pleased to inform that OGDCL has been declared by Karachi Stock Exchange (KSE) as winner of KSE "Top 25 Companies Award for the year 2005". The Company was selected for the award on the basis of meeting the pre-requisites laid-down by the KSE Board for the listed companies and marks obtained on the basis of distribution of profits, return on equity, turnover of shares and good corporate governance.

Financial Results

During the year under review, sales revenue of the Company grew by 3.6% to Rs 100.261 billion due to combination of increased sales volume of crude oil, gas and LPG and higher realized prices of crude oil, Naphtha and LPG. Sales volume of crude oil and LPG increased by 7.5% and 8.4% respectively which contributed increase of Rs 3.157 billion towards sales revenue. Increase in net realized prices of crude oil, Naphtha and LPG contributed Rs 3.305 billion to the sales revenue. However, net sales revenue from gas decreased by Rs 2.745 billion due to unfavorable price change despite slight increase in sales volume of gas. During the year, net realized prices of crude oil and gas averaged at US\$ 51.86 / bbl and Rs 144.12 / Mcf compared with US\$ 50.78 / bbl and Rs 152.88 / Mcf during the previous year.

Despite increase in sales revenue, profit before tax decreased by 7.4% to Rs 61.059 billion compared with Rs 65.911 billion in 2005-06. This decline in profit is mainly due to higher costs relating to the increase in exploration and prospecting activity. Operating expenses also increased by 23% to Rs 18.497 billion compared with Rs 15.046 billion during previous year. Within operating expenses amount of Rs 1.054 billion increased on account of charges related to minimum supply of gas i.e. liquidated damages pertaining to Uch Gas Field and Rs 1.478 billion increased on account of provision made in respect of sales revenue of crude oil for prices in excess of US \$ 50 / bbl for which discount

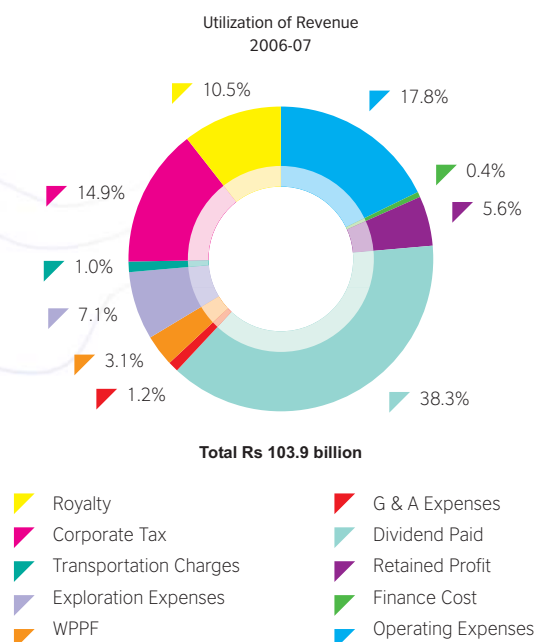
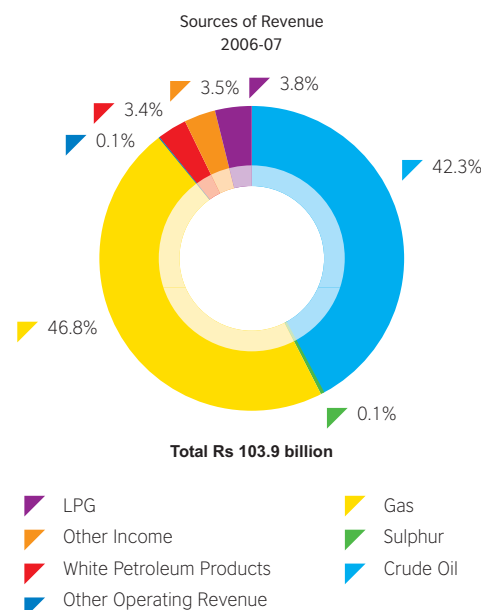


table is yet to be finalized with the Ministry of Petroleum and Natural Resources. Expenses like depreciation, amortization and maintenance / repair increased due to additions in property, plant and equipment, capitalization of new wells, enhanced production and major overhauls including annual turn around at various fields / plants. Within exploration and prospecting expenditure increase of Rs 2.688 billion resulted on account of cost of dry / abandoned wells and amount of Rs 1.037 billion on account of prospecting expenditure. Higher exploration and prospecting expenditure is in line with Company's strategy of extensive exploratory efforts which will contribute new discoveries, reserves additions, enhanced production and strengthening of financial position.

Other income during the period was Rs 3.615 billion compared with Rs 4.248 billion in the previous period. Increased operating and exploration expenses resulted in profit after tax of Rs 45.630 billion against Rs 45.968 billion during 2005-06, resulting in earnings per share (EPS) of Rs 10.61 compared with Rs 10.69 in the previous year.

During the year under review, net cash from operations, after payment of corporate tax of Rs 24.084 billion, was Rs 36.973 billion, a decrease of Rs 7.663 billion over 2005-06. Net cash used in investing activities increased by Rs 4.189 billion to Rs 13.002 billion against Rs 8.813 billion in the previous year mainly due to increase of Rs 4.527 billion in fixed capital expenditure which was Rs 16.445 billion in the year under review

as against Rs 11.918 billion in 2005-06. Net cash used in payment of dividend was Rs 38.154 billion as against Rs 41.445 billion resulting in net decrease of Rs 3.291 billion in cash used for financing activities. Decrease in cash flow from operating activities and net cash utilized in investing and financing activities resulted in a net cash decrease of Rs 14.183 billion to ending cash balance of Rs 17.994 billion.

Dividend

The Board of Directors is pleased to recommend a final cash dividend at 35% (Rs 3.50 per share) in addition to 55% (Rs 5.50 per share) interim cash dividends declared earlier during the year on the basis of interim results. This makes a total of 90% (Rs 9.00 per share) for the year ended June 30, 2007. The dividend recommended is subject to approval by the shareholders in the Annual General Meeting.

Contribution To National Exchequer

OGDCL is contributing huge amounts to the national exchequer in the form of royalty, dividend, corporate tax, general sales tax, excise duty and development surcharge in addition to Company's contribution towards savings in foreign exchange through import substitution on production of oil, gas and LPG. During the year 2006-07, the Company contributed Rs 78.08 billion to the national exchequer compared with Rs 79.46 billion in the previous year.

Financial results for the year ended June 30, 2007 are summarized below:

		Rs in billion	
Profit before taxation			61.059
Taxation			(15.429)
Profit for the year			45.630
Un-appropriated profit brought forward			49.542
Profit available for appropriations			95.172
Appropriations:			
Transfer to capital reserve			(0.219)
Distribution through Dividends:			
Final dividend 2005-06	@ Rs 3.75 per share (37.50%)	(16.128)	
First interim dividend 2006-07	@ Rs 1.75 per share (17.50%)	(7.527)	
Second interim dividend 2006-07	@ Rs 1.75 per share (17.50%)	(7.527)	
Third interim dividend 2006-07	@ Rs 2.00 per share (20.00%)	(8.602)	(39.784)
Un-appropriated profit carried forward			55.169

Exploration and Development

OGDCL's exploration strategies include maintaining balance portfolio of exploration concessions in order to hedge risk, accelerating exploration activities in offshore, extending exploratory efforts to unexplored frontier areas and maintaining acceptable success ratio for reserves addition.

OGDCL's exploration team is committed to encourage out-of-the-box thinking in all aspects of its operations; seek new ideas and alternatives that reduce costs or enhance operational efficiencies; quickly incorporate new technologies that have proven effectiveness; continually seek improvements in all areas of its operations.

The sustained and concerted efforts have resulted in meeting drilling targets of the year with the accomplishment of ten discoveries in different provinces of the country, including major ones at Mela, Pasakhi, Chak-66 and Dakhni Deep.

Pursuing aggressive exploration strategy, the Company acquired two new exploration concessions namely Offshore Indus-S and Offshore Indus-R covering an area of 3,622.14 Sq Kms.

OGDCL has also signed an agreement on February 09, 2007 with GHPL and Petrobras Oil & Gas B.V for assigning 50% working interest from its share to Petrobras Oil & Gas B.V over Block No. 2265-1 (Offshore Indus-G) for undertaking exploration activities in the block covering an area of 7,466.02 Sq Kms.

OGDCL acquired 70% working interest along with the operatorship in Guddu Block from M/s IPR Transoil Corporation (IPRTOC), under an assignment agreement executed on February 17, 2007 between GHPL, OGDCL and IPRTOC. Guddu Block covers an area of 2,093.4 Sq Kms over the Sindh and Punjab provinces of Pakistan.

OGDCL presently holds the largest acreage position in Pakistan and as on June 30, 2007, was operating in 42 exploration blocks covering an area of 80,584.48 Sq Kms. which constitute 33% of total exploration area granted to various E & P companies working in Pakistan. OGDCL also holds working interest in another 5 exploration concessions which are operated by other joint venture partners.



The Company regularly evaluates opportunities, domestic and overseas, to expand OGDCL's activities to other areas that may offer attractive exploration and development potential, with a particular interest in those areas that complement our current exploration, development and production activities.

A study aimed at having updated data analysis and geological synopsis of Pakistan's sedimentary basins is being carried out in collaboration with Fugro Robertson of UK. The project focuses on integrated geological and geophysical studies for identifying new hydrocarbon potential areas and plays to promote petroleum exploration within the country.

Ongoing and Future Development Projects

Uch-II Development Project

After carrying detailed study of UCH Gas Field, it envisaged that OGDCL is in a position to commit 200-220 MMcfd for 14 to 16 years to a new power producer. After the completion of the project, the sale gas from Uch Gas Field will be enhanced from 250 MMcfd to 450 MMcfd. Tender documents for contract award and GSA by OGDCL / PPIB are under preparation. The project is targeted by PPIB to be completed in 2009.

Qadirpur Gas Compression Project

In order to maintain 650 MMcfd raw gas plateau which will start depleting by the end of 2008, gas compression facilities would be required to maintain the production plateau of 650 MMcfd of raw gas up to 2014 and maintain gas supply up to 2017. The services of engineering and project management consultant have been hired. The contract for engineering, procurement and construction on turnkey basis has already been awarded in November, 2006. The project is expected to be completed by mid 2009.

Qadirpur additional Gas Capacity Enhancement Project

After carrying in-house reservoir study of Qadirpur Gas Field, it is envisaged that the Company is in a position to commit 100 MMcfd gas in addition to its commitment of 450 MMcfd to M/s SNGPL. The Company's professionals, after going through the existing membrane processing system have come up with the proposal of utilizing the 75 MMcfd permeate gas as a fuel gas for the power generation and to avoid flaring of hydrocarbons. The contract between OGDCL and M/s UOP for supply of equipment is executed. The delivery of equipment at site is in progress and letter of intent (LOI) has been issued to PCC Contractor. The project is expected to be completed by February 2008.

Dakhni Expansion Project

Dakhni Gas Processing Plant is in operation since 1989-1990 with a design capacity of 30 MMcfd. Over the years the composition



Drilling Operations at Qadirpur-29

of H₂S contents of raw gas has increased considerably resulting processing limitation on the existing plant and the plant is currently processing 18-20 MMcfd of sour feed gas. The incremental production after expansion will be 12 MMcfd of gas, 720 barrels per day of condensate, 12 M. Tons of LPG and 80 M. Tons of sulphur. Bids for supply of Sulphur Recovery Unit received and are under evaluation. Purchase orders for various other packages issued and some of the consignments have been received at site. The project is expected to be completed by August 2009.

Tando Allahyar Development Project

Tando Allahyar (TAY) field is located in District Hyderabad, of Sindh Province. 07 wells namely TAY wells No.1, 2, 3, 4, TAY-North, Dars -1 and Dars West-1 have been drilled in the field. The Company is installing all the surface facilities adjacent to Kunnar Field including 25 Km trunk line from TAY to Kunnar Field and 30 Km of Gas Transmission line from Kunnar to SSGCL main line at Hyderabad to handle the processing of 28 MMcfd sales gas, 2,500 bbls per day of Oil and 85 M. Tons of LPG per day. After award of contract, the project is expected to be completed within 12 months period.

Sinjhero Development Project

The Project is located in District Sanghar, Sindh. The surface facilities to be installed by the Company include gas gathering system for 15 wells, field compression, transport pipeline from Sinjhero to Bobi Field, gas treatment plant, recovery and compression system etc. The project will enhance OGDCL production capacity of 2,940 barrels per day of Oil, 25 MMcfd of gas and 224 M. Tons per day of LPG.

Sara West Development Project

Sara West field, located in District Khairpur, Sindh Province, was discovered in 1996. So far one well has been drilled at the field. The field has gas of low hydrocarbon contents and can be used for power generation only. The field was previously operated by M/s Tullow Pakistan (Development) Ltd., an Irish Company. The Company has now taken over the field and intends to develop the same for supply of gas to a Power Generation Company. OGDCL plans to drill two more wells and install processing facilities to meet the requirement of Power Generation Company.

Jhal Magsi Project

Jhal Magsi field located in Dera Murad Jamali was discovered in 2003. It is a Joint Venture between the OGDCL, Government Holding and POL. Two wells have been drilled at the field with second being the dry well. The third well is presently being drilled. The field has high contents of H₂S which would require removal before the gas is injected into the transmission network. Laying of pipeline and processing facilities design for the field shall be determined upon the results of the new well.

Discoveries

The Company made ten oil and gas discoveries at Mela-1, Pasakhi North East-1, Unar-1, Nim west-1, Chak 66 North East-1, Dhachrapur-1, Dakhni Deep-1, Kunnar West-1, Thora Deep-1 and Chandio-1 during the year 2006-07. These discoveries will add considerable amount of oil and gas to Company's reserve base. Some of the newly discovered fields including Mela have been put on regular production. Other new finds are also expected to substantially enhance oil and gas production in the near future.



Operational Activities - Chanda Field



Production

OGDCL has adopted strategy of extensive exploratory and development drilling in order to make additions in oil and gas reserves and ensure sustained growth in its oil and gas production. Accordingly, an aggressive exploratory and development drilling program is under way and in order to ensure growth in production, the Management of the Company is focusing on early and expeditious production from discovered fields in the close proximity of existing producing fields and facilities and also making efforts to maintain and enhance production from existing fields through workovers. Additionally, efforts are also being made to employ latest technology and different secondary recovery techniques to optimize production from existing fields. During the year, OGDCL spudded 13 development wells in addition to completion of workover jobs on another 14 wells. This on going development program is expected to continue to deliver further substantial production growth during the years ahead.

During the year under review, OGDCL accomplished the target date of completion of Mela Project located in District Kohat, NWFP Province. The project was completed in a record time of 19 weeks in spite of an unexpected delay of 4 weeks caused due to unprecedented rains. The infrastructure laid for this project is capable of handling 10,000 barrels of oil per day and 20 MMcfd of gas. All phases of the project were efficiently handled using the JITE (Just-in Time Engineering) approach. The well was put on extended testing during May 2007 after laying 12 kms pipeline in a very difficult terrain and by installing processing plant and

surface facilities. Mela-1 well is currently producing 5,000 barrels per day of oil and 8 MMcfd gas. Pasakhi North East-01 was put on regular production during December 2006. The well is currently producing 1,300 barrels of oil per day. Chanda Well-02 which was put on regular production in September 2006, an acid stimulation job was carried out on this well which resulted an increase in daily oil production by 1,400 barrels. Dhodak-10A after direct completion was put on production with 8.6 MMcfd gas and 270 barrels per day of condensate. Testing and successfully completion of Dakhni Deep-01 and Dakhni-10 was also achieved during the year. Sale of 10 MMcfd of gas to M/s SSGCL also started in May 2007 after completion of 42 kms gas pipeline at Bobi.

Annual Bottom Hole Pressure (BHP) survey at Qadirpur wells completed during the year and Multifinger Imaging Tool (MIT) survey carried out in order to check the condition of tubing of 10 wells. Additionally, acid stimulation jobs were carried out at Qadirpur-26 & 28 along with drilling of another development well i.e. Qadirpur-29 which is in progress. In order to effectively run the processing plants, annual turnaround were carried out at six gas / condensate plants during the year.

OGDCL maintained its status as leading national oil and gas producing company in the Country and it produced 54% of total Crude Oil and 22% of total Gas during 2006-07.

OGDCL's average production including share in joint ventures (JVs) during the year was as follows:

Products	Own Fields	Share in Operated JVs	Share in Non-Operated JVs	Total
Crude Oil (Barrels / day)	28,720	5,443	7,340	41,503
Gas (MMcf / day)	332	388	227	947
LPG (M. Tons / day)	307	-	79	386
Sulphur (M. Tons / day)	66	-	-	66

- Daily production has been worked out at 365 days per annum.
- Gas production includes production of 19 MMcfd from subsidiary company, Pirkoh Gas Company (Private) Limited.



Qadirpur Gas Processing Plant

Reserves

OGDCL is pursuing its strategy of adding oil and gas reserves through extensive and accelerated exploration which is reflected by its achievements of seismic and drilling targets during the year. These achievements reflect that OGDCL is on the right path in achieving its goals of securing reserves and ensuring growth in oil and gas production.

New discoveries are being made resulting in reserves addition and enhancement in oil and gas production. OGDCL made ten new oil and gas discoveries during the year ended June 30, 2007. Through these new discoveries in the period under review and few other discoveries made in the later part of the previous year, 44.068 million barrels of oil and 1,274.10 billion cubic feet of gas reserves were added to the Company's reserve base. Reserves evaluation of Thora Deep discovered in 2006-07 is currently under evaluation.

During the year some upward and downward revision in oil and gas reserves took place which resulted in net increase of 26.54 million barrels of oil reserves and net decrease of 246.07 billion cubic feet of gas reserves. Major upward revision in oil reserves during the year was done based on production performance evaluation of various fields. Major downward revision in gas

reserves is due to poor production performance than expected from Dhodak field in addition to reassessment of reserves of Chanda, Kunnar and Sari fields. Other upward revision in gas reserves during the year was due to reassessment of reserves of Bobi, Dakhni and Qadirpur fields.

OGDCL's remaining recoverable reserves as of June 30, 2007 stood at 159.17 million barrels of oil and 10,869.92 billion cubic feet of gas. These reserves were updated from appraisal report of Reserve Evaluation Study 2006 conducted by M/s D&M Canada, except Sinjhoru reserves which have been taken from PGS study 2004. Reserves of Bahu, Tando Allahyar, Chak 66-North East, Chak 63-South East, Dars Deep, Mela, Pasahki North East, Unar, Dachrapur, Dakhni Deep and Chandio are based on in-house assessment.

Subsidiary Company

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



Operations at the Pirkoh Gas Field remained suspended from February 16, 2006 to September 10, 2006 due to law and order situation in the area resulting decline in gas production, sales revenue and profitability. Natural depletion of the field also contributed towards the decreased production during the period under review.

Law and order situation in the area also hampered the exploration and development activities. Drilling of deep exploratory well planned for the year could not be drilled due to security reasons. However, rehabilitation program is under way which includes repair of damaged wellheads, infrastructure and gathering system. In this connection five wells have already been capped / rehabilitated using in-house capabilities. Damaged gas pipeline has also been repaired.

In order to explore the probable reserves of the field and enhance gas production, an exploration and development program will be implemented in 2007-08 which includes drilling of one deep exploratory and one development well, workovers at wells and installation of compressors thereby improving the pressure in case of low pressure wells. The implementation of the program will be subject to the security clearance in the area.

Company's sales revenue decreased to Rs 472 million compared with Rs 577 million during the previous year. This decline is mainly due to suspension of operational activities and natural depletion of Pirkoh Gas Field. Decrease in sales revenue was partially offset by the higher figures of other income of the Company to Rs 813 million from Rs 634 million in 2005-06. Decline of Rs 105 million in sales revenue coupled with provision of Rs 375 million made for impairment loss and increased operating expenses resulted

into net loss of Rs 145 million during the year under review against net profit of Rs 200 million in 2005-06.

Board Of Directors

The Board comprises eleven Directors including the Chief Executive Officer (CEO). The present Board was elected in the extra ordinary general meeting held on May 20, 2005 for a term of three years. The composition of the Board changed during the year due to appointment of Mr. Zahid Majid and Mr. Jalauddin Qureshi as Directors of OGDCL in place of Mr. Pervaiz Kausar and Mr. Asif Bajwa with effect from September 29, 2006 and October 29, 2006 respectively. We record Board's appreciation for the contribution and services rendered by the outgoing directors during their tenure. Board also extends a warm welcome to Mr. Zahid Majid and Mr. Jalauddin Qureshi as new members on the Board of Directors.

The Board presently comprises the following Directors:

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

Meetings of The Board

Eleven meetings of the Board of Directors were held between July 01, 2006 and June 30, 2007 and the attendance of each Director is given below.

Name of Director	Total No. of Meetings (*)	Meetings Attended
Mr. Arshad Nasar, (Chairman and CEO)	11	11
Mr. Muhammad Naeem Malik	11	10
Mr. Jalauddin Qureshi	9	8
Mr. Alman Aslam	11	5
Mr. Asad Umar	11	8
Mr. Aslam Khaliq	11	11
Mr. Azam Faruque	11	6
Mr. Khalid Rafi	11	10
Mr. Zahid Majid	10	9
Mr. Sikander Hayat Jamali	11	10
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	11	6
Mr. Asif Bajwa (former Director)	2	1
Mr. Pervaiz Kausar (former Director)	1	-

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



Central Control Room - Qadirpur Gas Processing Plant

Committees of the Board

Audit Committee

The Board of Directors has constituted an Audit Committee comprising five non-executive Directors of the Company as required under the Code of Corporate Governance. The Committee meets at least once every quarter of the year prior to approval of interim results of the Company by the Board of Directors. Additional meetings are held to review and discuss other matters as required under terms of reference or as assigned by the Board.

The Terms of Reference of the Audit Committee have been approved by the Board in compliance with the requirements of the Code of Corporate Governance contained in the listing regulations of the Stock Exchanges and include matters relating

to safeguarding assets, monitoring internal audit function, appointment and remuneration of external auditors. It also monitors compliance with applicable accounting and reporting standards / listing rules etc. It is also on the mandate of Audit Committee that the Committee may obtain outside professionals' advice and also recommend to the Board any changes or amendments in Policies, Procedures and System for improvement.

During 2006-07, five meetings of Audit Committee were held which were also attended by the Chief Financial Officer, the Head of Internal Audit and the external auditors at which issues relating to accounts and audit were discussed. During these meetings, the Committee held separate discussions with the internal and external auditors without the Management of the Company being present. The attendance by its members was as follows:

Name of Director	Total No. of Meetings (*)	Meetings Attended
Mr. Khalid Rafi (Chairman)	05	05
Mr. Asif Bajwa (former Director)	01	01
Mr. Pervaiz Kausar (former Director)	02	02
Mr. Aslam Khaliq	05	05
Mr. Zahid Majid	03	-
Mr. Jalaluddin Qureshi	03	03
Mr. Alman Aslam	03	02

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



Finance Committee

Finance Committee of the Board consists of five Directors including the CEO. The role of Finance Committee is to review and recommend the financial targets, annual and quarterly budgets, analysis of variances with the budget, procurement of plant, machinery, store items, award of contracts for civil works and development of fields etc. exceeding the powers delegated to MD/CEO, 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 and consider any other issue or matter as may be assigned by the Board of Directors. One meeting of the Committee was held during the year.

Human Resource Committee

Human Resource Committee of the Board consists of five Directors including CEO. The Human Resource Committee is responsible for approval of appointments / promotions to Executive Group (EG) VI and VII, recommendations for appointment / promotions beyond EG-VII, 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. Two meetings of the Human Resource Committee were held during the year.

Technical Committee

Technical Committee of the Board comprises six Directors including the CEO. The Technical Committee is responsible for approval of exploration licenses and related work programs within budgetary provisions, recommendations for farm-in and farm-out in concessions, recommendations for participation in off-shore and overseas opportunities, recommend / review the physical targets and formulation of technical policies required under the code of corporate governance and consider any other issue or matter as may be assigned by the Board of Directors. Four meetings of the Technical Committee were held during the year.

Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s M. Yousuf Adil Saleem & Co., Chartered Accountants have completed their assignment and stand retired.

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 replacement of M/s M. Yousuf Adil Saleem & Co., Chartered Accountants, with M/s A.F. Ferguson & Co. Chartered Accountants, as joint statutory auditors for the year 2007-08 and the Board of Directors also endorsed the recommendations of the Audit Committee. The Board wishes to place on record and acknowledge the highest standard of its professional independence, objectivity

and effectiveness shown by M/s M. Yousuf Adil Saleem & Co., Chartered Accountants who have served as statutory auditors of the Company for the period of three years.

Corporate Governance

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

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

- The financial statements, prepared by the management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of the last 10 years in summarized form is annexed.
- Value of investments, including bank deposits, of various funds as at June 30, 2006, based on their respective audited accounts, is as under:

- Pension and Gratuity Fund	Rs 6,898.778 million
- General Provident Fund	Rs 1,113.920 million
- All major Government levies in the normal course of business, payable as at June 30, 2007, have been cleared subsequent to the year-end.



Chanda Gas Processing Plant

Pattern of Shareholdings

The pattern of shareholdings as on June 30, 2007 is annexed.

Consolidated Financial Statement

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

Internal Audit and Control

Internal audit is an independent in-house function headed by a full time employee of the Company. The performance of the Internal Audit Department is monitored through Audit Committee of the Board of Directors. The scope of the Department has been defined by the Board as recommended by the Audit Committee and the Department head has access to the Chairman of the Audit Committee.

The objectives of the Internal Audit Department include provision of independent assurance that controllable business risks are being managed with effective control, ensure that adequate controls exist within Company's systems and activities by having continuous reviews, bringing deficiencies and weaknesses in the system and procedures to the notice of the Management and the Audit Committee and suggest remedial steps to address those weaknesses, recommend changes in the policies, systems and procedures in order to ensure systems and activities achieve their objectives. Follow up the implementation of agreed actions, advise management cost effective controls and highlight

opportunities to reduce cost through greater economy and efficiency within systems and activities. Facilitate the annual risk analysis and assist management in the corporate governance reporting process, carryout review, work, special audit and investigation as may be requested by the Audit Committee and liaise and co-ordinate with external auditors and Government Auditors.

Human Resource Development

OGDCL with growing human resource strength of over 11,000 employees is involved in translating its strength into tangible results. The workforce is spread all over the country and playing crucial role to achieve its targets. OGDCL Management is committed to develop high performing employees.

Human resource development remained the main focus of the Company during the year to motivate its employees through employee recognition, effective appraisal, proper placement and promoting employees skill development programme. Various human resources policies have been reviewed, rationalized and also developed policies like recruitment and selection, promotion and performance management by taking into account the industry norms to bring about effective change and meet future challenges. Management's relations with the CBA remained friendly and industrial peace prevailed at all locations during the year. The Management successfully concluded an agreement with CBA for period of two years from February 7, 2007 to February 6, 2009.





Training and Development

In order to improve the knowledge of its personnel, broaden their vision, create awareness amongst them about the fast changing technological developments and expose them to modern management concepts, OGDCL conducts various in-house structured programs. Company's personnel are also regularly nominated on technical and management courses, seminars, workshops and exhibitions both within country and abroad.

OGDCL's Petroleum Research and Training Institute (PRTI) provides wide range of upstream training programs to meet the training needs of the Company and other E&P companies operating in Pakistan.

During the year under review, a batch of 110 geoscientists, engineers and technicians in 11 different disciplines started their eleven-month basic training at PRTI. A total of 74 courses related to petroleum, IT, HSE and management have so far been conducted for these trainees in addition to on-the-job training in their respective areas at rigs, production fields, geological & seismic parties. Technical refresher courses for petroleum industry professionals and some specialized training courses on LOTUS Notes were also conducted by PRTI. Professionals from OGDCL and other E&P companies benefited from these training programs. During the year, about 100 professionals of OGDCL were sent to various institutes/companies within Pakistan for attending short courses to enhance their skills in managerial, technical, HSE, IT and civil defense areas and about 100 OGDCL professionals went abroad for attending workshops/conferences, participation in various studies.

Information Technology

OGDCL is actively pursuing its commitment towards modernization of its information technology and communication infrastructure and facilities. Working towards this commitment, the Company successfully completed the consultancy project on preparation of an IT Strategic Plan. The plan so prepared has helped identify and prioritize the initiatives in the areas of infrastructure enhancement, business intelligence applications and restructuring and reorganization of the IT Department

On infrastructure side, Company LAN has been extended to different offices through high speed wireless technologies. This has facilitated easy sharing of information resources among these offices.

A comprehensive plan has been prepared for establishing a disaster recovery site together with revamping of existing data center. The plan includes deploying the state-of-the-art technologies providing central storage with facilities to replicate real time data with offsite backup systems. Once completed, the arrangement will ensure business continuity in case of any possible disaster that disrupts the central systems or makes the main offices in-accessible.

Keeping in view the requirement of management reporting and monitoring of KPIs, a Business Intelligence Solution (a software system from an Australian firm) was selected and deployed for a three months detailed evaluation. This system provides facility for integrating real-time data from different sources (financials, production etc.) and generating management reports and KPIs in a graphical format. Move towards acquisition of this system will be made after on going successful evaluation.

Health, Safety, Environment and Quality

The policy of OGDCL in carrying out all its activities is to provide a safe and healthy work place and to minimize the impact to environment in compliance with the Federal and Local legislation concerning HSE and the applicable international rules and standards. OGDCL believes that good HSE performance will contribute to the business success and that Health, Safety and Environment protection is a shared responsibility across the Company.

We are supporting Health, Safety and Environment initiatives by promoting a positive culture based on improving our HSE performance, complying with all legal and regulatory requirements, maintaining internationally certified HSE management systems, eliminating hazards, practices and behaviors that could cause accidents, injuries or illness, implementing controls to eliminate pollution and environmental harm, providing training and resources for staff to maintain safe systems of work, integrating HSE management into all aspects of the organization, employing contractors who aspire to the same HSE standards and reporting publicly and annually on HSE performance, measured against objectives and targets. We are also continuing to address the environmental and health impact of our operations by reducing waste, emissions and discharge and by using energy efficiently.

During the year under review OHSAS 18001 and ISO 14000 implementation projects at Qadirpur Gas Field / Plant and Dhodak Condensate Field / Plant were certified with the assistance of renowned consultants while ISO 9001 and ISO 17025 implementation projects at G & R Laboratories Islamabad are under way. Three in-house workshops on HSE management, evaluation & reporting, auditing process for integrated management systems, a six sigma tools and technique for process improvement were designed and conducted at PRTI utilizing internal resources. Dupont Safety Resources (DSR) was consulted which conducted the safety management evaluation audit of Qadirpur Gas Field / Plant and submitted a detailed audit report prescribing useful suggestions while instructors from National Institute of Fire Technology (NIFT) trained personnel at various fields and plants on the issues of fire fighting, confined space entry systems and resuscitation techniques.

HSE audits of production fields and plants, rigs and seismic parties were conducted both by internal teams as well as Chief Inspector of mines and the proposed measures were very timely taken and





Kunnar LPG Plant

implemented. National Institute of Biotechnology and Genetic Engineering (NIBGE) Faisalabad was contacted to discuss bioremediation solutions for oil spills, contaminated soil and polluted water. HSE plantation campaign was conducted at Qadirpur Gas Field to create professional awareness and motivation.

Corporate Social Responsibility

The Company endeavors to be a responsible corporate entity of the E & P community. Being fully aware of its social obligations, it continues to proactively promote, develop and maintain medical, social and welfare facilities and schemes for the benefit of the local communities in its area of operation. These include employment opportunities for locals, construction of roads, setting up dispensaries and providing free first-aid and healthcare, establishing schools, providing scholarships, supply of drinking water, donations for charitable cause and financial assistance to improve the quality of lives of people and communities with which it interacts while doing so, is also aware of, and observes traditional and ethnic practices out of mutual respect for social and cultural differences.

Recently, OGDCL has taken the lead to establish two Technical Training Schools in Quetta, (Balochistan) and Karak, (NWFP). OGDCL provides financial assistance for the schools by meeting all expenditures. Training programme includes classroom instructions and on the job practical training. After successful completion of their training, certificates are awarded to them by OGDCL's Petroleum Research Training Institute.

As a gesture towards economic empowerment of women, OGDCL has also established a Vocational Training School for girls at Tando Alam Muree, District Hyderabad, Sindh, to provide livelihood opportunities to the female youth of the area. This school imparts skills in sewing, cutting and embroidery. At present, one hundred girls from villages adjoining Tando Alam Oil Complex have been enrolled.



OGDCL has joined hands with the World Bank for the "Pakistan Development Market Place 2006 (PDM-2006)" initiatives. This programme will support the creative and innovative initiatives to improve the lives of people with disabilities.

Future Outlook

The year 2006-07 represents a period of record operating and stable financial performance. Our operational achievements are driven by Company's strategies of adding oil and gas reserves through accelerated exploration and timely development of discovered fields. Discoveries made during the recent past will strengthen the oil and gas production base and with favorable price environment we anticipate strong financial results in the years to come which will help the Company in carrying out its exploration and development activities set out in its business and strategic plan.

Initiatives are being taken to enhance OGDCL's business canvas. OGDCL intends to maintain a balance portfolio of exploration blocks and accelerate exploration activities in offshore areas and extend exploratory efforts to unexplored and frontier areas in addition to exploring old areas with new ideas and innovations. The Company will also avail opportunities to acquire overseas acreage by buying stakes in existing viable producing fields. OGDCL is looking into the possibility of E&P opportunities and joint venture collaborations outside Pakistan and aims to follow an aggressive business development strategy to strengthen its positions in its core business areas.

Our strategy of strengthening the production base and focusing on high impact exploration, backed by strong financial position will add significant value for the shareholders in the years ahead.

Acknowledgements


On behalf of the Board, I am extremely grateful to our shareholders, provincial and federal government departments particularly the Ministry of Petroleum and Natural Resources, Joint Venture Partners, Suppliers / Contractors and Customers for their enduring relationship and support towards the progress of the Company. I am also proud of employees of OGDCL and appreciate their dedication, commitment and contribution towards the outstanding results achieved by the Company during the year.

I am thankful for the continued support of my fellow directors whose consistent efforts and guidance in directing the Company's affairs contributed significantly in achieving the financial and operational targets.

With dedication and commitment we will continue to play our role as a dynamic and growing company by implementing strategies drawn up, monitoring results and ensuring right course in achieving our goal of providing energy security to the Country and assure that interests of the shareholders will remain the prime concern of the Board of Directors and Management of the Company.

At the end, I would like to thank all our stakeholders and our hard-working management and employees for their support and look forward to their continued support for further success in the years to come.

On behalf of the Board



(Arshad Nasar)
CHAIRMAN & CEO

Islamabad
August 22, 2007



Pattern of Shareholdings as at June 30, 2007

Number of Shareholders	Shareholdings		Total Shares held
1,546	1	100	72,508
20,757	101	500	10,054,330
10,618	501	1,000	10,321,746
7,909	1,001	5,000	18,392,097
1,165	5,001	10,000	8,816,281
665	10,001	20,000	9,923,813
261	20,001	30,000	6,628,452
108	30,001	40,000	3,818,772
110	40,001	50,000	5,182,577
121	50,001	75,000	7,544,148
76	75,001	100,000	6,898,842
87	100,001	150,000	10,874,975
48	150,001	200,000	8,648,129
34	200,001	250,000	7,729,951
18	250,001	300,000	4,979,325
31	300,001	400,000	10,764,190
25	400,001	500,000	11,332,583
12	500,001	600,000	6,601,893
15	600,001	700,000	9,897,254
6	700,001	800,000	4,570,305
15	800,001	900,000	12,775,065
12	900,001	1,000,000	11,368,666
19	1,000,001	1,500,000	22,677,384
12	1,500,001	2,000,000	21,105,392
18	2,000,001	3,000,000	44,417,011
9	3,000,001	5,000,000	36,072,918
5	5,000,001	8,000,000	28,792,455
2	8,000,001	9,000,000	154,192,090
-	9,000,001	10,000,000	-
4	10,000,001	25,000,000	47,144,073
3	25,000,001	50,000,000	85,637,217
2	50,000,001	100,000,000	16,895,838
1	100,000,001	400,000,000	3,656,798,120
<u>43,714</u>			<u>4,300,928,400</u>

Categories of Shareholders as at June 30, 2007

Categories of Shareholders	Number of Shareholders	Shares held	Percentage
Individuals	42,899	101,768,117	2.37
Investment Companies	31	19,422,556	0.45
Insurance Companies	29	18,912,468	0.44
Joint Stock Companies	308	41,543,860	0.97
Banks, DFIs, NBFIs	56	39,730,750	0.92
Modarabas and Mutual Funds	30	16,177,378	0.38
Foreign Investors	108	295,236,373	6.86
Cooperative Societies	2	5,203	0.00
Charitable Trusts	18	598,657	0.01
Others	232	110,734,918	2.57
Government of Pakistan	1	3,656,798,120	85.02
TOTAL	<u>43,714</u>	<u>4,300,928,400</u>	<u>100.00</u>

Pattern of Shareholdings	Number of Shareholders	Shares held	Percentage
Associated Companies, Undertakings and Related Parties and Shareholders holding 10% and above shares			
Government of Pakistan	1	3,656,798,120	85.02
NIT & ICP			
National Investment Trust Ltd (NIT)	1	188,944	0.00
National Bank of Pakistan Trustee Department	1	8,926,712	0.21
Directors, Chief Executive Officer and their spouses and minor children			
Mr. Azam Faruque	1	3,105	0.00
Executives			
	3	7,759	0.00
Investment Companies	31	19,422,556	0.45
Insurance Companies	29	18,912,468	0.44
Joint Stock Companies	308	41,543,860	0.97
Banks, DFIs, NBFIs	56	39,730,750	0.92
Modarabas and Mutual Funds	28	7,061,722	0.16
Foreign Investors	108	295,236,373	6.86
Cooperative Societies	2	5,203	0.00
Charitable Trusts	18	598,657	0.01
Individuals	42,895	101,757,253	2.37
Others	232	110,734,918	2.57
TOTAL	<u>43,714</u>	<u>4,300,928,400</u>	<u>100.00</u>

SHAREHOLDINGS:

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



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

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2007.



KPMG TASEER HADI & Co.
Chartered Accountants

Islamabad
August 22, 2007



M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants

Islamabad
August 22, 2007

Statement of Compliance with the Code of Corporate Governance

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

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

1. The Government of Pakistan holds more than 85% stake in the Company and nominates all the directors. All the directors excluding Chairman are non-executive directors.
2. The Directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the Directors of the Company are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a Stock Exchange has been declared as defaulter by the Stock Exchange.
4. All casual vacancies occurring on the Board were filled in within 30 days thereof.
5. Vision, Mission statements and Statement of Ethics and Business Practices have been prepared and approved by the Board.
6. The Board is in the process of developing overall corporate strategy and significant policies of the Company, which are in the stage of finalization.
7. A complete record of particulars of significant policies and board decisions along with the dates on which they were approved or amended has been maintained.
8. 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, CFO, Company Secretary, Head of Internal Audit and other Executive Directors have been taken by the Board.
9. The meetings of the Board were presided over by the Chairman and held at least once in each quarter. Written notices of Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. Where the period was short for emergent meetings it was agreed by the members of the Board. The minutes of the meetings were appropriately recorded and circulated.
10. All the directors are on the Boards of other companies and have adequate exposure of corporate matters and well aware of their duties and responsibilities. Appropriate orientation courses of the directors are being arranged in consultation with the Board.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters which are required to be disclosed.
12. The CEO and CFO have duly endorsed the financial statements of the Company 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 shareholdings.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The audit committee comprises five members, including the Chairman of the committee. All members of the committee including Chairman are non-executive directors.
16. The meetings of the audit committee were held in every quarter prior to approval of the interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and duly approved by the Board and advised to the committee for compliance.
17. 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.



18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied except for those referred in preceding paragraphs and for that the Company intends to seek compliance during next accounting year.

]

Islamabad
August 22, 2007

On behalf of the Board


(Arshad Nasar)
CHAIRMAN & CEO

Statement of Compliance with the Best Practices on Transfer Pricing for the year ended June 30, 2007

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

Islamabad
August 22, 2007

On behalf of the Board


(Arshad Nasar)
CHAIRMAN & CEO

The background is a solid green color with a faint grid pattern. A large, semi-transparent upward-pointing arrow is positioned in the upper left quadrant. Below it, a bar chart with two bars is visible, also semi-transparent. The text 'Financial Statements 2007' is centered on the right side of the page.

Financial Statements
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2007


Auditors' Report to the Members of Oil and Gas Development Company Limited


We have audited the annexed balance sheet of Oil and Gas Development Company Limited ("the Company") as at 30 June 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion-
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of Company's affairs as at 30 June 2007 and of the profit, 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.


KPMG TASEER HADI & Co.
Chartered Accountants
Islamabad
August 22, 2007


M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants
Islamabad
August 22, 2007



Balance Sheet

as at 30 June 2007

	Note	2007 (Rupees '000)	2006 (Rupees '000)
SHARE CAPITAL AND RESERVES			
Share capital	5	43,009,284	43,009,284
Capital reserve	6	2,438,228	2,219,027
Unappropriated profit		55,169,140	49,541,966
		100,616,652	94,770,277
NON CURRENT LIABILITIES			
Deferred taxation	7	11,023,916	10,010,991
Deferred employee benefits	8	1,423,132	1,420,245
Provision for decommissioning cost	9	5,151,807	4,221,756
		17,598,855	15,652,992
CURRENT LIABILITIES			
Trade and other payables	10	11,122,665	7,174,483
Provision for taxation	11	-	3,716,958
		11,122,665	10,891,441
CONTINGENCIES AND COMMITMENTS			
	12		
		129,338,172	121,314,710

The annexed notes 1 to 40 form an integral part of these financial statements.

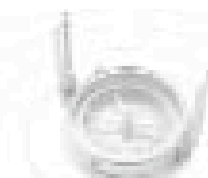


Chairman and Chief Executive

	Note	2007 (Rupees '000)	2006
NON CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	13	21,600,201	20,253,248
Development and production assets - intangible	14	28,749,993	21,653,562
Exploration and evaluation assets	15	6,365,706	4,348,142
		56,715,900	46,254,952
Long term investments	16	2,945,938	2,758,912
Long term loans and receivables	17	1,117,755	1,391,552
Long term prepayments		39,821	58,021
		60,819,414	50,463,437
CURRENT ASSETS			
Stores, spare parts and loose tools	18	13,178,295	11,032,754
Stock in trade		93,788	65,608
Trade debts	19	27,873,515	24,498,986
Loans and advances	20	1,538,657	1,301,759
Deposits and short term prepayments	21	292,928	300,260
Interest accrued		253,222	464,982
Other receivables	22	1,063,389	790,122
Other financial assets	23	13,553,959	31,209,932
Advance tax	11	5,950,713	-
Cash and bank balances	24	4,720,292	1,186,870
		68,518,758	70,851,273
		129,338,172	121,314,710



Director



Profit and Loss Account

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
Sales - net	25	100,261,191	96,755,382
Royalty		(10,877,443)	(10,872,443)
Operating expenses	26	(18,497,388)	(15,045,654)
Transportation charges		(1,087,931)	(942,163)
		(30,462,762)	(26,860,260)
Gross profit		69,798,429	69,895,122
Other income	27	3,615,231	4,247,881
Exploration and prospecting expenditure	28	(7,406,280)	(3,680,707)
General and administration expenses	29	(1,285,476)	(1,071,979)
Finance costs	30	(449,561)	(9,973)
Workers' profit participation fund		(3,213,617)	(3,469,017)
		61,058,726	65,911,327
PROFIT BEFORE TAXATION		61,058,726	65,911,327
Taxation	31	(15,428,762)	(19,943,604)
PROFIT FOR THE YEAR		45,629,964	45,967,723
Earnings per share - basic and diluted (Rupees)	33	10.61	10.69

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman and Chief Executive



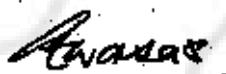
Director

Cash Flow Statement

for the year ended 30 June 2007

	Note	2007	2006
		(Rupees '000)	
Cash flows from operating activities			
Profit before taxation		61,058,726	65,911,327
Adjustments for:			
Depreciation		2,978,442	2,370,871
Amortization of development and production assets		3,637,369	3,339,729
Royalty		10,877,443	10,872,443
Workers' profit participation fund		3,213,617	3,469,017
Provision for employee benefits		184,852	243,906
Unwinding of discount on provision for decommissioning cost		443,699	-
Interest income		(3,064,607)	(3,389,616)
Unrealized gain on investments at fair value through profit or loss		(60,386)	(21,523)
Dividend income		(300,653)	(398,970)
Gain on disposal of property, plant and equipment		(32,628)	(26,282)
Interest income on long term receivables		(61,573)	(82,752)
Provision for slow moving and obsolete stores		-	47,452
Provision for doubtful advances		(5,430)	(1,997)
		78,868,871	82,333,605
Working capital changes			
(Increase)/decrease in current assets:			
Stores, spare parts and loose tools		(2,145,541)	(3,502,052)
Stock in trade		(28,180)	(33,204)
Trade debts		(3,374,529)	(5,971,412)
Deposits and short term prepayments		7,332	(36,540)
Advances and other receivables		86,035	(58,194)
Increase/(decrease) in current liabilities:			
Trade and other payables		1,207,365	1,162,437
Cash generated from operations		74,621,353	73,894,640
Royalty paid		(9,768,793)	(10,297,744)
Employee benefits paid		(327,302)	(1,349,931)
Payments to workers' profit participation fund - net		(3,469,017)	(3,380,011)
Income taxes paid		(24,083,508)	(14,231,431)
		(37,648,620)	(29,259,117)
Net cash from operating activities		36,972,733	44,635,523
Cash flows from investing activities			
Fixed capital expenditure		(16,444,905)	(11,917,891)
Interest received		3,466,000	3,119,077
Dividends received		300,653	398,970
Purchase of investments		(450,000)	(440,063)
Proceeds from encashment of investments		73,341	12,140
Proceeds from disposal of property, plant and equipment		35,130	31,184
Long term prepayments		18,200	(16,182)
Net cash used in investing activities		(13,001,581)	(8,812,765)
Cash flows from financing activities			
Dividends paid		(38,154,089)	(41,444,703)
Net cash used in financing activities		(38,154,089)	(41,444,703)
Net decrease in cash and cash equivalents		(14,182,937)	(5,621,945)
Cash and cash equivalents at beginning of the year		32,177,279	37,799,224
Cash and cash equivalents at end of the year	34	17,994,342	32,177,279

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman and Chief Executive



Director

Statement of Changes in Equity

for the year ended 30 June 2007

	Share capital	Capital reserve	Unappropriated profit	Total equity
(Rupees '000)				
Balance at 01 July 2005	43,009,284	1,995,996	38,204,702	83,209,982
Changes in equity for the year ended 30 June 2006				
Final dividend 2005: Rs 2.75 per share	-	-	(11,827,553)	(11,827,553)
First interim dividend 2006: Rs 1.25 per share	-	-	(5,376,161)	(5,376,161)
Second interim dividend 2006: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2006: Rs 2.25 per share	-	-	(9,677,089)	(9,677,089)
Transfer to capital reserve	-	223,031	(223,031)	-
Profit for the year	-	-	45,967,723	45,967,723
Total recognized income for the year	-	-	45,967,723	45,967,723
Balance at 30 June 2006	<u>43,009,284</u>	<u>2,219,027</u>	<u>49,541,966</u>	<u>94,770,277</u>
Balance at 01 July 2006	43,009,284	2,219,027	49,541,966	94,770,277
Changes in equity for the year ended 30 June 2007				
Final dividend 2006: Rs 3.75 per share	-	-	(16,128,482)	(16,128,482)
First interim dividend 2007: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2007: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2007: Rs 2.00 per share	-	-	(8,601,857)	(8,601,857)
Transfer to capital reserve	-	219,201	(219,201)	-
Profit for the year	-	-	45,629,964	45,629,964
Total recognized income for the year	-	-	45,629,964	45,629,964
Balance at 30 June 2007	<u>43,009,284</u>	<u>2,438,228</u>	<u>55,169,140</u>	<u>100,616,652</u>

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman and Chief Executive



Director

Notes to the Financial Statements

for the year ended 30 June 2007

1 LEGAL STATUS AND OPERATIONS

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

Government of Pakistan (GoP) divested 214,091,139 Ordinary shares being 4.98% of its shareholding in October 2003 through an Initial Public Offering. In December 2006, GoP further divested 408,588,000 Ordinary shares through secondary offering in the form of Global Depository Shares (1GDS = 10 Ordinary shares of the Company) to international institutional investors including an offering of GDSs to certain qualified institutional buyers in the United States under Rule 144A of the Securities Act and secondary offering of Ordinary shares to local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 21,505,000 Ordinary shares to the general public in February 2007. Accordingly, GoP owns 85.02% (2006: 95.02%) of the Ordinary shares of the Company as of 30 June 2007.

2 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 SIGNIFICANT ESTIMATES

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

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

Judgments made by the management in the application of IASs 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.

2.2.1 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in



Notes to the Financial Statements

for the year ended 30 June 2007

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.

2.2.2 Estimation of oil and natural gas reserves

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

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

2.2.3 Provision for decommissioning cost

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

2.2.4 Employee benefits

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

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

2.2.5 Taxation

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

Notes to the Financial Statements

for the year ended 30 June 2007

3 ACCOUNTING CONVENTION

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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:

4.1.1 Pension, post retirement medical benefits and accumulating compensated absences

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

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

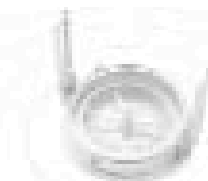
The Company also has a policy whereby all its permanent employees falling under the category of staff including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited are able to encash accumulated leave balance at the time of retirement or during the service.

The Company makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried out as of 30 June 2007. The calculations of actuaries are based on the projected unit credit method, net of the assets guaranteeing the plan, if any, with the obligation increasing from year to year, in a manner that it is proportional to the length of service of the employees.

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

4.2 TAXATION

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



Notes to the Financial Statements

for the year ended 30 June 2007

4.2.1 Current

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

4.2.2 Deferr ed

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

4.3 PROPERTY, PLANT AND E QUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, 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 4.4.4 to the financial statements.

Depreciation is provided on straight line method at rates specified in note 13 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2007

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

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

4.4 OIL AND GAS ASSETS

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

4.4.1 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.

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

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

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

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

4.4.3 Development and production assets - intangible

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the



Notes to the Financial Statements

for the year ended 30 June 2007

capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 4.4.2 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

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

4.4.4 Decommissioning cost

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

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

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

4.4.5 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 concession and the net selling price of the hydrocarbons produced.

Notes to the Financial Statements

for the year ended 30 June 2007

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

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

4.5 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 de-recognized 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.

4.5.1 Investments in subsidiaries and associated companies

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

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

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

4.5.2 Investments held to maturity

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

4.5.3 Investments available for sale

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

4.5.4 Investments at fair value through profit or loss

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



Notes to the Financial Statements

for the year ended 30 June 2007

4.6 STORES, SPARE PARTS AND LOOSE TOOLS

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

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

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

4.7 STOCK IN TRADE

Stock in trade is valued at the lower of production cost and net realizable value.

4.8 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.

4.9 REVENUE RECOGNITION

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

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

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

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

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

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

4.10 BORROWING COSTS

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 2007

4.11 JOINT VENTURE OPERATIONS

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

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

4.12 FOREIGN CURRENCIES

Pakistan rupee is the functional currency of the Company. 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 Pakistan rupees at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

4.13 PROVISIONS

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

4.14 FINANCIAL INSTRUMENTS

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

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

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at cost, fair value or amortized cost, as the case may be.

4.15 OFFSETTING

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



Notes to the Financial Statements

for the year ended 30 June 2007

4.16 TRADE DEBTS

Trade debts are carried at nominal value less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

4.17 TRADE AND OTHER PAYABLES

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

4.18 CASH AND CASH EQUIVALENTS

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

4.19 DIVIDEND

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

4.20 SELF INSURANCE SCHEME

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

4.21 IMPAIRMENT

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

Notes to the Financial Statements

for the year ended 30 June 2007

5 SHARE CAPITAL

Issued, subscribed and paid up capital

2007	2006		2007	2006
Number			(Rupees '000)	
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 5.1)	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>

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

Authorized share capital

This represents 5,000,000,000 (2006: 5,000,000,000) Ordinary shares of Rs 10 each.

6 CAPITAL RESERVE

The Company has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation and vehicle repair. Refer note 16.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.

7 DEFERRED TAXATION

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

	2007	2006
	(Rupees '000)	
Accelerated depreciation on property, plant and equipment	2,586,475	2,431,552
Expenditure of exploration and evaluation, development and production assets	8,792,795	7,925,860
Provision for doubtful debts	(127,592)	(88,186)
Provision for slow moving and obsolete stores	(227,762)	(258,235)
	<u>11,023,916</u>	<u>10,010,991</u>

Deferred tax liability has been calculated at the current effective tax rate of 28.91% (2006: 33.06%) after taking into account depletion allowance and set offs, where available, in respect of royalty payments to the GoP.



Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
8 DEFERRED EMPL OYEE BENEFITS			
Post retirement medical benefits	8.1	807,382	773,457
Accumulating compensated absences	8.2	615,750	646,788
		<u>1,423,132</u>	<u>1,420,245</u>
8.1 Post retirement medical benefits			
The amount recognized in the balance sheet is as follows:			
Present value of defined benefit obligation		608,371	538,894
Un-recognized actuarial gain		199,011	234,563
Net liability at end of the year		<u>807,382</u>	<u>773,457</u>
Movement in the present value of defined benefit obligation is as follows:			
Present value of defined benefit obligation at beginning of the year		538,894	450,173
Current service cost		24,173	17,362
Interest cost		53,889	45,017
Benefits paid		(21,553)	(19,793)
Actuarial loss		12,968	46,135
Present value of defined benefit obligation at end of the year		<u>608,371</u>	<u>538,894</u>
Expense recognized in profit and loss account:			
Current service cost		24,173	17,362
Interest cost		53,889	45,017
Net actuarial gain recognized		(22,584)	(29,460)
		55,478	32,919
Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited		(3,303)	(2,037)
		<u>52,175</u>	<u>30,882</u>
The expense is recognized in the following line items in profit and loss account:			
Operating expenses		25,522	25,775
General and administration expenses		3,953	5,107
Technical services		22,700	-
		<u>52,175</u>	<u>30,882</u>
Significant actuarial assumptions used were as follows:			
Discount rate per annum		10%	10%
Medical inflation rate per annum		6%	6%
Inflation rate per annum		2%	2%
Mortality rate		61~66 years	61~66 years
A one percent change in the medical cost trend rate would have the following effect:			
		1% increase	1% decrease
Present value of medical obligation		714,303	523,411
Current service cost and interest cost		102,094	72,526

Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
8.2 Accumulating compensated absences		
Present value of defined benefit obligation	646,788	583,426
Charge for the year	(31,038)	63,362
Net liability at end of the year	<u>615,750</u>	<u>646,788</u>

The rates of discount and salary increase were assumed at 10% (2006: 10%) each per annum.

	2007	2006
	(Rupees '000)	
9 PROVISION FOR DECOMMISSIONING COST		
Balance at beginning of the year	4,221,756	7,543,672
Provision made during the year	486,352	639,471
	<u>4,708,108</u>	<u>8,183,143</u>
Reversal of provision due to change in estimates	-	(3,961,387)
Unwinding of discount on provision for decommissioning cost	443,699	-
Balance at end of the year	<u>5,151,807</u>	<u>4,221,756</u>

The above provision for decommissioning cost is analyzed as follows:

Wells	4,105,439	3,795,693
Production facilities	602,669	426,063
Unwinding of discount on provision for decommissioning cost		
Wells	383,575	-
Production facilities	60,124	-
	<u>443,699</u>	<u>-</u>
	<u>5,151,807</u>	<u>4,221,756</u>

Significant assumptions used were as follows:

	Per annum	
Discount rate	10.2%	10.2%
Inflation rate	7.63%	7.63%

	Note	2007	2006
		(Rupees '000)	
10 TRADE AND OTHER PAYABLES			
Creditors		290,116	172,665
Accrued liabilities		3,355,187	2,250,575
Royalty		2,397,564	1,288,914
Excise duty		102,291	97,996
General sales tax		1,362,049	1,329,134
Payable to joint venture partners		1,028,288	1,071,201
Retention money		212,766	212,454
Trade deposits		94,581	92,581
Unpaid dividend		2,102,291	237
Unclaimed dividend		65,790	538,344
Employees' pension trust	10.1	-	-
Advances from customers		35,756	56,563
Other payables		75,986	63,819
		<u>11,122,665</u>	<u>7,174,483</u>

Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
10.1 Employees' pension trust		
The amount recognized in the balance sheet is as follows:		
Present value of defined benefit obligation	9,320,649	7,622,259
Fair value of plan assets	(9,179,845)	(8,340,395)
Deficit/(surplus) of the fund	140,804	(718,136)
Un-recognized actuarial (gain)/loss	(140,804)	718,136
Net liability at end of the year	-	-
The movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation at beginning of the year	7,622,259	7,543,651
Current service cost	377,563	297,080
Interest cost	762,226	747,913
Benefits paid	(231,530)	(261,629)
Actuarial loss/(gain)	790,131	(704,756)
Present value of defined benefit obligation at end of the year	9,320,649	7,622,259
The movement in the fair value of plan assets is as follows:		
Fair value of plan assets at beginning of the year	8,340,395	7,543,484
Expected return on plan assets	834,040	754,348
Contributions	305,749	339,685
Benefits paid	(231,530)	(261,629)
Actuarial loss	(68,809)	(35,493)
Fair value of plan assets at end of the year	9,179,845	8,340,395
Expense recognized in profit and loss account:		
Current service cost	377,563	297,080
Interest cost	762,226	747,913
Expected return on plan assets	(834,040)	(754,348)
Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited	(12,546)	(12,191)
	293,203	278,454
Plan assets comprise:		
Bonds	8,567,514	7,082,842
Equity	607,943	-
Cash and bank balances	4,388	1,257,553
	9,179,845	8,340,395
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	121,603	111,794
General and administration expenses	62,146	56,987
Technical services	109,454	109,673
	293,203	278,454
Actual return on plan assets	765,000	750,000

Notes to the Financial Statements

for the year ended 30 June 2007

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:

	2007	2006	2005 (Rupees '000)	2004	2003
Present value of defined benefit obligation	9,320,649	7,622,259	7,543,651	6,325,301	4,661,329
Fair value of plan assets	(9,179,845)	(8,340,395)	(7,543,484)	(7,423,308)	(4,101,349)
Deficit/(surplus)	140,804	(718,136)	167	(1,098,007)	559,980
Experience adjustments on obligation	(790,131)	704,756	(595,374)	(1,193,227)	(687,272)
Experience adjustments on plan assets	(68,809)	(35,493)	(455,275)	2,973,112	208,016

Significant actuarial assumptions used were as follows:

	2007 Per annum	2006
Discount rate	10%	10%
Rate of increase in future compensation levels	10%	10%
Expected rate of return on plan assets	10%	10%
Indexation rate	3%	3%

11 PROVISION FOR TAXATION

	2007 (Rupees '000)	2006
Tax payable/(advance tax) at beginning of the year	3,716,958	(932,512)
Income tax paid during the year	(24,083,508)	(14,231,431)
Provision for current taxation	14,415,837	18,880,901
(Advance tax)/tax payable at end of the year	(5,950,713)	3,716,958

12 CONTINGENCIES AND COMMITMENTS

- 12.1** Claims against the Company not acknowledged as debts amounted to Rs 232.491 million at year end (2006: Rs 494.876 million).
- 12.2** Commitments outstanding at year end amounted to Rs 12,256.639 million (2006: Rs 7,027.459 million). These included amounts aggregating to Rs 2,672.684 million (2006: Rs 2,527.456 million) representing the Company's share in the minimum work commitments related to operated/non-operated concessions.
- 12.3** 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 4,318.176 million (2006: Rs 6,589.035 million).
- 12.4** Certain banks have issued guarantees on behalf of the Company in ordinary course of business aggregating to Rs 104.844 million at year end (2006: Rs 106.823 million), refer note 24.1 to the financial statements.
- 12.5** For contingencies relating to tax matters, refer note 31.2 to the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2007

13 PROPERTY, PLANT AND EQUIPMENT

(Rupees '000)

Description	Freehold land	Leasehold land	Buildings, offices and roads on freehold land	Buildings, offices and roads on leasehold land	Plant and machinery	Rigs	Pipelines	Office and domestic equipment	Office and technical data computers	Furniture and fixtures	Aircraft	Vehicles	Decommissioning cost	Capital works in progress (Note 13.3)	Stores held for capital expenditure	Total
Cost																
Balance as at 01 July 2005	139,019	363,026	1,696,160	650,682	32,602,903	734,984	4,254,337	368,844	416,157	49,556	19,855	2,083,405	601,188	1,179,290	802,041	45,961,427
Additions	8,947	10,672	129,362	35,486	1,837,305	142,646	172,753	75,481	63,008	1,173	-	297,577	-	594,141	59,615	3,428,166
Disposals/transfers	-	-	-	-	62,882	(5,270)	-	(2,305)	(1)	-	-	(78,766)	(175,105)	(682,586)	(184,215)	(1,181,130)
Adjustments	-	-	(1,888)	1,888	(3,505,761)	-	3,505,761	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2006	147,966	373,698	1,823,634	688,056	30,881,565	872,360	7,932,851	442,020	479,164	50,729	19,855	2,302,216	426,083	1,090,845	677,441	48,208,463
Balance as at 01 July 2006	147,966	373,698	1,823,634	688,056	30,881,565	872,360	7,932,851	442,020	479,164	50,729	19,855	2,302,216	426,083	1,090,845	677,441	48,208,463
Additions	7,125	2,821	114,715	31,004	17,922,275	152,361	434,448	44,299	83,018	5,691	-	697,702	176,606	751,790	389,578	4,683,431
Disposals/transfers	-	-	-	-	(26,026)	(5,195)	-	(4,002)	(13,264)	-	-	(70,142)	-	(37,233)	(62,235)	(218,097)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2007	155,091	376,519	1,938,347	719,060	32,647,814	1,019,526	8,367,299	462,317	548,918	56,420	19,855	2,929,716	602,669	1,805,402	1,004,784	52,673,797
Depreciation																
Balance as at 01 July 2005	-	115,863	361,381	238,393	18,885,695	571,816	2,705,018	293,999	300,098	13,762	17,869	1,807,587	72,411	-	-	25,474,092
Charge for the year	-	10,160	95,302	56,439	1,828,998	27,814	387,433	20,839	31,983	6,444	-	113,316	36,717	-	-	2,615,445
On disposals/transfers	-	-	-	-	(50,709)	(5,193)	-	(2,224)	-	-	-	(76,196)	-	-	-	(134,322)
Adjustments	-	-	-	-	(2,439,437)	-	2,439,437	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2006	-	126,023	456,683	294,832	18,234,547	594,437	5,531,888	312,614	412,081	20,206	17,869	1,844,707	109,128	-	-	27,955,215
Balance as at 01 July 2006	-	126,023	456,683	294,832	18,234,547	594,437	5,531,888	312,614	412,081	20,206	17,869	1,844,707	109,128	-	-	27,955,215
Charge for the year	-	10,157	94,078	89,063	17,722,290	49,404	736,474	29,856	42,284	6,909	-	178,058	85,982	-	139,954	3,234,509
On disposals/transfers	-	-	-	-	(25,752)	(5,153)	-	(3,653)	(13,140)	-	-	(632,300)	-	-	-	(116,128)
Balance as at 30 June 2007	-	136,180	550,761	383,895	19,981,065	630,688	6,268,362	338,617	441,225	27,115	17,869	1,954,535	195,110	-	139,954	31,073,546
Carrying amount - 2006	147,966	247,675	1,366,951	393,224	12,647,018	277,923	2,400,963	129,406	67,083	30,523	1,986	457,509	316,935	1,090,845	677,441	20,253,248
Carrying amount - 2007	155,091	240,339	1,387,386	335,165	12,666,729	380,838	2,098,937	143,700	107,693	29,305	1,986	975,241	407,559	1,805,402	864,830	21,600,201
Rates of depreciation (%)	-	1-3.3	2.5-8	2.5-8	4-20	10	10	15	30	15	10	20	1-10	-	-	2.5

Notes to the Financial Statements

for the year ended 30 June 2007

13.1 Cost and accumulated depreciation as at 30 June 2007 include Rs 12,743.355 million (2006: Rs 11,601.413 million) and Rs 7,190.478 million (2006: Rs 6,159.241 million) respectively being the Company's share in property, plant and equipment relating to joint ventures operated by others.

	Note	2007 (Rupees '000)	2006
13.2 The depreciation charge has been allocated to:			
Operating expenses	26	2,879,766	2,289,751
General and administration expenses	29	98,676	81,120
Technical services		256,067	244,574
		3,234,509	2,615,445

13.3 Capital works in progress

Production facilities and other civil works in progress:

Wholly owned	678,782	487,486
Joint ventures	1,073,058	578,013
	1,751,840	1,065,499
Construction cost of field offices and various bases/offices owned by the Company	53,562	25,346
	1,805,402	1,090,845

13.4 Details of property, plant and equipment sold:

	Cost	Book value	Sale proceeds
(Rupees)			
Vehicles sold to following retiring employees as per Company's policy:			
Hafiz M. Rehman	939,000	159,772	171,639
Mr. Khalid Feroz	939,000	222,305	231,774
Mr. Altaf Hussain	548,780	36,718	65,233
Mr. Pervez A Khan	548,780	73,273	77,839
Mr. Tariq	548,780	48,424	50,225
M. Maas Siddique	555,000	185,667	233,422
Mr. Sajjad Ahmed	943,000	582,454	612,655
Mr. Manzoor Sultan	939,000	234,750	263,640
Mr. Tariq Athar Kidwai	604,300	1,000	1,000
Mr. Saad Ullah Khan Safi	604,300	1,000	1,000
Mr. Obed-ur-Rehman Paracha	939,000	107,692	118,186
Mr. Asad Ullah Sheikh	939,000	172,967	244,632
	9,047,940	1,826,022	2,071,245
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.	109,581,920	675,800	33,058,500
2007	118,629,860	2,501,822	35,129,745
2006	139,223,643	4,901,859	31,183,505

Notes to the Financial Statements

for the year ended 30 June 2007

14 DEVELOPMENT AND PRODUCTION ASSETS - Intangible

(Rupees '000)

Description	Producing fields		Shut-in fields		progress (Note 14.1)	Wells in Sub total	missioning cost	Decom- Total
	Wholly owned	Joint ventur es	Wholly owned	Joint ventur es				
Cost								
Balance as at 01 July 2005	12,531,822	14,149,413	738,128	1,989,786	993,002	30,402,151	6,942,504	37,344,655
Additions	1,831,969	3,257,590	175,055	1,107,032	4,592,576	10,964,222	(3,146,811)	7,817,411
Transfers	-	-	-	-	(4,361,395)	(4,361,395)	-	(4,361,395)
Balance as at 30 June 2006	14,363,791	17,407,003	913,183	3,096,818	1,224,183	37,004,978	3,795,693	40,800,671
Balance as at 01 July 2006	14,363,791	17,407,003	913,183	3,096,818	1,224,183	37,004,978	3,795,693	40,800,671
Additions	4,544,434	2,834,346	766,302	1,403,482	5,879,043	15,427,607	309,746	15,737,353
Transfers	-	-	-	-	(5,003,553)	(5,003,553)	-	(5,003,553)
Balance as at 30 June 2007	18,908,225	20,241,349	1,679,485	4,500,300	2,099,673	47,429,032	4,105,439	51,534,471
Amor tization								
Balance as at 01 July 2005	7,594,408	5,625,552	78,992	56,877	-	13,355,829	2,451,551	15,807,380
Charge for the year	1,307,875	1,643,342	289,089	84,208	-	3,324,514	15,215	3,339,729
Balance as at 30 June 2006	8,902,283	7,268,894	368,081	141,085	-	16,680,343	2,466,766	19,147,109
Balance as at 01 July 2006	8,902,283	7,268,894	368,081	141,085	-	16,680,343	2,466,766	19,147,109
Charge for the year	1,681,872	1,745,631	4,360	148	-	3,432,011	205,358	3,637,369
Balance as at 30 June 2007	10,584,155	9,014,525	372,441	141,233	-	20,112,354	2,672,124	22,784,478
Carrying amount - 2006	5,461,508	10,138,109	545,102	2,955,733	1,224,183	20,324,635	1,328,927	21,653,562
Carrying amount - 2007	8,324,070	11,226,824	1,307,044	4,359,067	2,099,673	27,316,678	1,433,315	28,749,993

2007
(Rupees '000)

2006

14.1 Wells in progress

Wholly owned
Joint ventures

Wholly owned	673,135	197,161
Joint ventures	1,426,538	1,027,022
	<u>2,099,673</u>	<u>1,224,183</u>

Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
15 EXPLORATION AND EVALUATION ASSETS			
Balance at beginning of the year		2,551,149	1,225,968
Additions		8,069,762	4,847,558
		10,620,911	6,073,526
Cost of dry and abandoned wells	28	(4,200,530)	(1,512,128)
Cost of wells transferred to development and production assets		(4,545,011)	(2,010,249)
		(8,745,541)	(3,522,377)
		1,875,370	2,551,149
Stores held for exploration and evaluation activities	15.1	4,490,336	1,796,993
Balance at end of the year		6,365,706	4,348,142
15.1 Stores held for exploration and evaluation activities			
Balance at beginning of the year		1,796,993	533,994
Additions		3,856,654	1,872,609
Issuances		(1,163,311)	(609,610)
Balance at end of the year		4,490,336	1,796,993
15.2 The following disclosures detail the liabilities, other assets and expenditure incurred on exploration for and evaluation of mineral resources:			
	Note	2007 (Rupees '000)	2006
Liabilities related to exploration and evaluation		526,695	678,374
Current assets related to exploration and evaluation		401,308	349,318
Exploration and prospecting expenditure	28	7,406,280	3,680,707
16 LONG TERM INVESTMENTS			
Investments in related parties	16.1	491,500	491,500
Investments held to maturity	16.2	2,454,438	2,267,412
		2,945,938	2,758,912



Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
16.1 Investments in related parties			
Wholly owned subsidiary - unquoted			
Pirkoh Gas Company (Private) Limited		418,000	418,000
Percentage holding 100% (2006: 100%) 1,254,000 (2006: 1,254,000) fully paid Ordinary shares of Rs 1,000 each (including 836,000 bonus shares). Breakup value based on audited financial statements was Rs 6,655 million (2006: Rs 7,051 million).			
The Board of Directors of the Company in consultation with the Privatization Commission of Pakistan has, in principle, approved merger of the subsidiary with the Company.			
Associated Company - quoted			
Mari Gas Company Limited		73,500	73,500
Percentage holding 20% (2006: 20%) 7,350,000 (2006: 7,350,000) fully paid Ordinary shares of Rs 10 each Market value Rs 1,286 million (2006: Rs 930 million)			
		<u>491,500</u>	<u>491,500</u>
16.2 Investments held to maturity			
Defence Saving Certificates (DSCs)	16.2.1	389,097	673,307
Term Deposit Receipts (TDRs)	16.2.2	2,065,341	1,594,105
		<u>2,454,438</u>	<u>2,267,412</u>
16.2.1	Face value of investments in DSCs is Rs 84.908 million (2006: Rs 158.249 million). These carry effective interest rates ranging between 16% to 18% (2006: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2007 to 2009.		
16.2.2	Face value of investments in TDRs is Rs 2,015 million (2006: Rs 1,565 million). These have maturity period up to six months and carry effective interest rates of 10.80% to 11.60% (2006: 11% to 11.1%). These are due to mature in 2007.		
16.2.3	Investments amounting to Rs 2,255.354 million (2006: Rs 1,937.602 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments to the extent of capital reserve.		
16.2.4	These investments are identified against capital reserve as explained in note 6 to the financial statements.		

Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
17 LONG TERM LOANS AND RECEIVABLES			
Long term loans - secured	17.1	1,117,755	919,725
Long term receivables - unsecured	17.2	-	471,827
		<u>1,117,755</u>	<u>1,391,552</u>
17.1 Long term loans - secured			
Considered good:			
Executives		71,034	25,341
Other employees		1,237,189	1,058,237
		<u>1,308,223</u>	<u>1,083,578</u>
Current portion shown under loans and advances	20	(190,468)	(163,853)
		<u>1,117,755</u>	<u>919,725</u>

17.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at 01 July 2006	Disbursements during the year	Repayments during the year	Balance as at 30 June 2007
	(Rupees '000)			
Due from:				
Executives	25,341	60,629	14,936	71,034
Other employees	1,058,237	363,427	184,475	1,237,189
	<u>1,083,578</u>	<u>424,056</u>	<u>199,411</u>	<u>1,308,223</u>

17.1.2 The loans are granted to the employees of the Company in accordance with the Company's service rules. House building and conveyance loans are for maximum period of 15 and 5 years respectively. These loans are secured against the underlying assets. Included in these are loans of Rs 1,043.686 million (2006: Rs 860.964 million) which carry no interest. The balance amount carries an effective interest rate of 10.65% (2006: 8.22%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 85.97 million (2006: Rs 25.341 million).



Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
17.2 Long term receivables - unsecured			
Considered good		471,827	1,066,800
Reversal of / (allowance) for impairment		61,573	(61,573)
		<u>533,400</u>	<u>1,005,227</u>
Current portion shown under other receivables	22	<u>(533,400)</u>	<u>(533,400)</u>
		<u>-</u>	<u>471,827</u>

Long term receivables represent the amount receivable from Water and Power Development Authority (WAPDA) on account of overdue balances of gas companies transferred to WAPDA as a result of inter- corporate debt adjustment approved by the GoP in April 1999. Pursuant to the Economic Coordination Committee (ECC) of Cabinet decision in November 2001 and waiver of interest by the President of Pakistan in June 2002, the Company entered into agreements with three power generating companies namely Jamshoro Power Generation Company, Central Power Generation Company and Northern Power Generation Company on 01 July 2002.

These receivables carry no interest and are repayable in 5 years with one year grace period. In accordance with IAS-39 "Financial Instruments: Recognition and Measurement" an impairment loss is recognized on these receivables which is the difference between the carrying amount and present value of expected future cash flows discounted at 7.5% per annum, representing the imputed rate for interest calculation.

	2007 (Rupees '000)	2006
18 STORES, SPARE PARTS AND LOOSE TOOLS		
Stores, spare parts and loose tools	11,872,952	9,702,621
Stores and spare parts in transit	2,093,208	2,117,998
	<u>13,966,160</u>	<u>11,820,619</u>
Provision for slow moving and obsolete stores	<u>(787,865)</u>	<u>(787,865)</u>
	<u>13,178,295</u>	<u>11,032,754</u>
19 TRADE DEBTS		
Un-secured, considered good	27,873,515	24,498,986
Un-secured, considered doubtful	177,737	177,737
	<u>28,051,252</u>	<u>24,676,723</u>
Provision for doubtful debts	<u>(177,737)</u>	<u>(177,737)</u>
	<u>27,873,515</u>	<u>24,498,986</u>

19.1 Trade debts include an amount of Rs 4,354 million (2006: Rs 4,265 million) withheld by Uch Power Limited (UPL) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to the proposal and this has resulted in liquidated damages of Rs 1,054 million (2006: Rs 1,006 million) for the year.

Notes to the Financial Statements

for the year ended 30 June 2007

19.2 Trade debts also include an amount of Rs 5,379 million (2006: Rs 1,768 million) which has been withheld by the refineries under the directive of Ministry of Petroleum and Natural Resources and represents revenue on crude oil in excess of USD 50 per barrel for which discount table is yet to be finalized.

19.3 Also included in trade debts is an amount of Rs 3,288 million (2006: Rs 2,586 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.

	Note	2007 (Rupees '000)	2006
20 LOANS AND ADVANCES			
Advances considered good:			
Suppliers and contractors		683,970	315,433
Joint venture partners		637,527	799,664
Others		26,692	22,809
		1,348,189	1,137,906
Current portion of long term loans - secured	17.1	190,468	163,853
		1,538,657	1,301,759
Advances considered doubtful		263,622	269,052
		1,802,279	1,570,811
Provision for doubtful advances		(263,622)	(269,052)
		1,538,657	1,301,759
21 DEPOSITS AND SHORT TERM PREPAYMENTS			
Security deposits		8,888	8,699
Short term prepayments		284,040	291,561
		292,928	300,260
22 OTHER RECEIVABLES			
Development surcharge		76,307	76,115
Receivable from subsidiary	22.1	61,338	27,682
Current portion of long term receivables - unsecured	17.2	533,400	533,400
Claims receivable		19,209	14,940
Workers' profit participation fund	22.2	286,383	30,983
Others		86,752	107,002
		1,063,389	790,122

22.1 This represents net balance of receivable from Pirkoh Gas Company (Private) Limited, a wholly owned subsidiary. Maximum amount due from the subsidiary at the end of any month during the year was Rs 223.892 million (2006: Rs 445.634 million).



Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
22.2 Workers' profit participation fund			
Receivable at beginning of the year		30,983	119,989
Paid to the fund during the year		3,500,000	3,500,000
		<u>3,530,983</u>	<u>3,619,989</u>
Received during the year		(30,983)	(119,989)
Charge for the year		(3,213,617)	(3,469,017)
Receivable at end of the year		<u>286,383</u>	<u>30,983</u>
23 OTHER FINANCIAL ASSETS			
Investments:			
At fair value through profit or loss - NIT units		279,909	219,523
Available for sale	23.1	<u>13,274,050</u>	<u>30,990,409</u>
		<u>13,553,959</u>	<u>31,209,932</u>

23.1 These represent investments in TDRs maturing in the short term and carry interest rate of 5.2% to 11.60% (2006: 4% to 11.4%) per annum. Included in these investments are foreign currency TDRs amounting to USD 65 million (2006: USD 57 million).

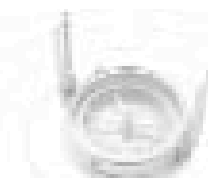
	Note	2007 (Rupees '000)	2006
24 CASH AND BANK BALANCES			
Cash at bank:			
Deposit accounts	24.1	4,541,284	1,036,555
Current accounts		152,087	124,152
		<u>4,693,371</u>	<u>1,160,707</u>
Cash in hand		25,236	23,258
Cash in transit		1,685	2,905
		<u>4,720,292</u>	<u>1,186,870</u>

24.1 Deposit accounts include foreign currency deposits amounting to USD 14.545 million (2006: USD 7.7 million) which carry interest rate of 1.75% to 9.5% (2006: 2.8% to 9.5%) per annum. Deposits amounting to Rs 104.844 million (2006: Rs 106.823 million) with banks were under lien to secure bank guarantees issued on behalf of the Company.

Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
25 SALES - net			
Gross sales			
Crude oil		50,502,930	45,415,285
Gas		57,163,255	60,375,285
Kerosene oil		528,684	540,714
High speed diesel oil		439,509	414,990
Solvent oil		44,810	238,455
Naphtha		3,119,878	2,855,446
Liquefied petroleum gas		4,569,446	2,633,917
Sulphur		126,821	196,723
Other operating revenue	25.1	63,581	36,797
		116,558,914	112,707,612
Government levies			
Excise duty		(1,417,470)	(1,494,528)
Development surcharge		(51,138)	(50,280)
General sales tax		(14,829,115)	(14,407,422)
		(16,297,723)	(15,952,230)
		100,261,191	96,755,382
25.1 Other operating revenue			
Gas processing		29,925	-
Seismic data		-	2,393
Drilling services		-	23,484
Mud engineering services		33,656	10,920
		63,581	36,797



Notes to the Financial Statements

for the year ended 30 June 2007

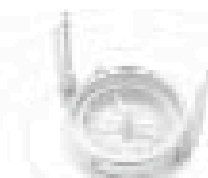
	Note	2007 (Rupees '000)	2006
26 OPERATING EXPENSES			
Salaries, wages and benefits	26.1	2,407,727	2,204,085
Traveling and transportation		300,037	291,995
Repairs and maintenance		907,647	550,356
Stores and supplies consumed		770,746	775,738
Rent, fee and taxes		311,154	329,446
Insurance		238,642	226,141
Communication		28,750	29,951
Utilities		24,296	15,513
Land and crops compensation		170,908	122,161
Contract services		771,244	511,159
Joint venture expenses		1,844,426	1,669,655
Desalting, decanting and naphtha storage charges		189,539	198,082
Gas processing charges		160,601	111,313
Charges related to minimum supply of gas - liquidated damages		1,054,049	1,005,748
Adjustment on discount on trade debts		1,478,302	-
Welfare of locals at fields		140,150	213,210
Provision for slow moving and obsolete inventory		-	47,452
Workover charges		474,919	407,672
Depreciation	13.2	2,879,766	2,289,751
Amortization of development and production assets	14	3,637,369	3,339,729
Transfer from general and administration expenses	29	733,654	735,893
Miscellaneous		1,642	3,808
		18,525,568	15,078,858
Stock of crude oil and other products:			
Balance at beginning of the year		65,608	32,404
Balance at end of the year		(93,788)	(65,608)
		18,497,388	15,045,654

26.1 These include amount in respect of employee retirement benefits of Rs 147.125 million (2006: Rs 137.569 million).

Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
27 OTHER INCOME			
Income from financial assets			
Interest income on:			
Investments and bank deposits		3,064,607	3,389,616
Long term receivables		61,573	82,752
Delayed payments from joint venture partners		-	55,547
Delayed payments from customers		24,263	6,504
		3,150,443	3,534,419
Dividend income from:			
Wholly owned subsidiary		250,800	376,200
Associated company		23,520	22,770
NIT units		26,333	-
		300,653	398,970
Unrealized gain on investments at fair value through profit or loss		60,386	21,523
Exchange (loss)/gain		(65,019)	167,667
		3,446,463	4,122,579
Income from non financial assets			
Gain on disposal of property, plant and equipment		32,628	26,282
Gain/(loss) on disposal of inventory		52,647	(3,258)
Write back of provision for benevolent fund		-	19,119
Others		83,493	83,159
		168,768	125,302
		3,615,231	4,247,881
28 EXPLORATION AND PROSPECTING EXPENDITURE			
Cost of dry and abandoned wells	15	4,200,530	1,512,128
Prospecting expenditure		3,205,750	2,168,579
		7,406,280	3,680,707



Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
29 GENERAL AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	29.1	1,129,986	1,015,633
Traveling and transportation		155,050	134,965
Repairs and maintenance		35,054	44,576
Stores and supplies consumed		119,229	118,945
Rent, fee and taxes		53,523	31,230
Communication		41,928	35,524
Utilities		41,201	38,352
Training and scholarships		20,911	16,360
Legal services		18,641	5,005
Contract services		74,836	65,132
Auditors' remuneration	29.2	9,335	6,508
Advertising		26,220	55,781
Joint venture expenses		394,117	428,839
Insurance		748	1,944
Donations	29.3	347,011	61,764
Aircraft expenses		6,352	6,065
Unallocated expenses of rigs		75,604	215,746
Depreciation	13.2	98,676	81,120
Miscellaneous		8,319	12,586
		2,656,741	2,376,075
Allocation of expenses to:			
Operations	26	(733,654)	(735,893)
Technical services		(550,528)	(502,743)
Wholly owned subsidiary		(87,083)	(65,460)
		(1,371,265)	(1,304,096)
		1,285,476	1,071,979

29.1 These include amount in respect of employee retirement benefits of Rs 66.099 million (2006: Rs 62.094 million).

Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
29.2 Auditors' remuneration		
M/s KPMG Taseer Hadi & Co., Chartered Accountants		
Annual audit fee	1,100	968
Half yearly review	300	300
Out of pocket expenses	175	159
Audit of consolidated financial statements	230	212
Concession audit fee	1,700	1,300
Quarterly review of consolidated financial statements	1,125	-
Dividend certification	50	150
Local retail offering of shares	325	-
	5,005	3,089
M/s M. Yousuf Adil Saleem & Co., Chartered Accountants		
Annual audit fee	1,100	968
Half yearly review	300	300
Out of pocket expenses	175	159
Audit of consolidated financial statements	230	212
Verification of CDC record	-	150
Concession audit fee	1,770	1,450
Certification of fee payable to OGRA	180	180
Dividend certification	250	-
Local retail offering of shares	325	-
	4,330	3,419
	9,335	6,508

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

	Note	2007	2006
		(Rupees '000)	
30 FINANCE COSTS			
Unwinding of discount on provision for decommissioning cost		443,699	-
Bank charges		5,862	9,973
		449,561	9,973
31 TAXATION			
Provision for current taxation - for the year		14,415,837	18,880,901
Provision for deferred taxation		1,012,925	1,062,703
	31.1	15,428,762	19,943,604

Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
31.1 Reconciliation of tax charge for the year:		
Accounting profit	<u>61,058,726</u>	<u>65,911,327</u>
Tax rate	<u>52.48%</u>	<u>52.91%</u>
Tax on accounting profit at applicable rate	32,045,451	34,875,067
Tax effect of amounts/expenses that are inadmissible for tax purposes	9,180,984	9,419,705
Tax effect of amounts/expenses that are admissible for tax purposes	(9,010,560)	(7,929,173)
Tax effect of royalty allowed for tax purposes	(10,877,445)	(10,872,443)
Tax effect of depletion allowance for tax purposes	(7,999,596)	(7,794,993)
Dividend chargeable to tax at reduced rate	14,197	19,948
Income chargeable to tax at corporate rates	1,062,806	1,162,790
Tax effect of timing differences	1,012,925	1,062,703
	<u>15,428,762</u>	<u>19,943,604</u>

- 31.2** Re-assessment proceedings for assessment years 1996-97 to 2002-03, tax years 2003 and 2004 are pending before the Taxation Officer in the light of the order of the Commissioner of Income Tax (Appeals) and decision of the adjudicator appointed by both the Company as well as the Central Board of Revenue (CBR) on the issues of decommissioning cost and depletion allowance. The Company is also in appeal before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1996-97 to 2002-03 and tax year 2003 and 2004 which are currently pending for adjudication.

On the basis of judgment of the adjudicator and the revised assessment an amount of Rs 4,686.026 million is refundable as against the demand created by the department of Rs 346.196 million for assessment years 1992-93 to 2002-03 and tax years 2003 and 2004. The provision for taxation in the financial statements has been made in accordance with the decision of the adjudicator.

The Company filed an application to CBR for resolution of the issues of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment years 1996-97 to 2002-03 and tax years 2003 and 2004. The Order on ADRC recommendation has been issued by CBR where it has decided not to intervene. Accordingly, the issues involved will be settled at appellate forums.

Pending the outcome of these appeals, no provision has been made in these financial statements for such demands as the management is confident that the appeals will be decided in the Company's favour in line with the adjudication orders. However, pending the final outcome in this regard, the Company is contingently liable to an amount of Rs 7,297.392 million as at 30 June 2007.

The returns for tax year 2005 and 2006 have been duly filed by the Company. Such returns are deemed assessment u/s 120 of Income Tax Ordinance 2001.

Notes to the Financial Statements

for the year ended 30 June 2007

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

32.1 Interest rate risk

(Rupees '000)

Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2007	
	Maturity upto one year	Maturity after one year and upto two years	Maturity after two and upto three years	Maturity after three and upto four years	Maturity after four and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
Financial assets:												
Long term investments	10.8% ~ 18 %	2,255,354	199,084	-	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	684,861	892,225	1,577,086	1,841,623
Trade debts		-	-	-	-	-	-	-	27,873,515	-	27,873,515	27,873,515
Loans and advances		-	-	-	-	-	-	-	664,219	-	664,219	664,219
Deposits		-	-	-	-	-	-	-	8,888	-	8,888	8,888
Other receivables		-	-	-	-	-	-	-	453,682	-	453,682	453,682
Interest accrued		-	-	-	-	-	-	-	253,222	-	253,222	253,222
Other financial assets	5.3 % ~ 11.60 %	13,274,050	-	-	-	-	-	13,274,050	279,909	-	279,909	13,553,959
Cash and bank balances	1.75 % ~ 9.5 %	4,541,284	-	-	-	-	-	4,541,284	179,008	-	179,008	4,720,292
		20,109,695	234,979	33,375	26,860	22,822	106,578	20,534,309	30,397,304	892,225	31,289,529	51,823,838
Financial liabilities:												
Trade and other payables		-	-	-	-	-	-	-	7,225,005	-	7,225,005	7,225,005
		-	-	-	-	-	-	-	7,225,005	-	7,225,005	7,225,005
On balance sheet gap		20,109,695	234,979	33,375	26,860	22,822	106,578	20,534,309	23,172,299	892,225	24,064,524	44,598,833
Un-recognized												
Commitments (other than LCs)		-	-	-	-	-	-	-	12,256,639	-	12,256,639	12,256,639
Claim not acknowledged as debts		-	-	-	-	-	-	-	232,491	-	232,491	232,491
Letters of credit		-	-	-	-	-	-	-	4,318,176	-	4,318,176	4,318,176
Guarantees		-	-	-	-	-	-	-	104,844	-	104,844	104,844
		-	-	-	-	-	-	-	16,912,150	-	16,912,150	16,912,150
Off balance sheet gap		20,109,695	234,979	33,375	26,860	22,822	106,578	20,534,309	6,260,149	892,225	7,152,374	27,686,683

Notes to the Financial Statements

for the year ended 30 June 2007

32.2 Interest rate risk

(Rupees '000)

Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2006	
	Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
Financial assets:												
Long term investments	11% ~ 18%	1,937,602	240,354	89,456	-	-	-	2,267,412	-	-	-	2,267,412
Long term loans and receivables	8.22%	48,884	33,968	46,587	51,329	41,845	-	222,613	660,989	1,205,203	1,866,192	2,088,805
Trade debts		-	-	-	-	-	-	-	24,498,986	-	24,498,986	24,498,986
Loans and advances		-	-	-	-	-	-	-	850,155	-	850,155	850,155
Deposits		-	-	-	-	-	-	-	8,699	-	8,699	8,699
Other receivables		-	-	-	-	-	-	-	152,925	-	152,925	152,925
Interest accrued		-	-	-	-	-	-	-	464,982	-	464,982	464,982
Other financial assets	4% ~ 11.4%	30,990,409	-	-	-	-	-	30,990,409	219,523	-	219,523	31,209,932
Cash and bank balances	2.8% ~ 9.5%	1,036,555	-	-	-	-	-	1,036,555	150,315	-	150,315	1,186,870
		34,013,450	274,322	136,043	51,329	41,845	-	34,516,989	27,006,574	1,205,203	28,211,777	62,728,766
Financial liabilities:												
Trade and other payables		-	-	-	-	-	-	-	4,401,876	-	4,401,876	4,401,876
		-	-	-	-	-	-	-	4,401,876	-	4,401,876	4,401,876
On balance sheet gap		34,013,450	274,322	136,043	51,329	41,845	-	34,516,989	22,604,698	1,205,203	23,809,901	58,326,890
Un-recognized												
Commitments (other than LCs)		-	-	-	-	-	-	-	7,027,459	-	7,027,459	7,027,459
Claim not acknowledged as debts		-	-	-	-	-	-	-	494,876	-	494,876	494,876
Letters of credit		-	-	-	-	-	-	-	6,589,035	-	6,589,035	6,589,035
Guarantees		-	-	-	-	-	-	-	106,823	-	106,823	106,823
		-	-	-	-	-	-	-	14,218,193	-	14,218,193	14,218,193
Off balance sheet gap		34,013,450	274,322	136,043	51,329	41,845	-	34,516,989	8,386,505	1,205,203	9,591,708	44,108,697

32.3 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 51,823.838 million (2006: Rs 62,728.766 million), financial assets which are subject to credit risk amount to Rs 50,101.282 million (2006: Rs 60,948.623 million). To manage exposure to credit risk, the Company applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Company does not expect these companies to fail to meet their obligations.

Notes to the Financial Statements

for the year ended 30 June 2007

32.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. At the year end financial assets and liabilities include Rs 4,838.674 million (2006: Rs 3,951.84 million) and Rs 147.26 million (2006: Rs 230.30 million) respectively which are exposed to currency risk.

32.5 Liquidity risk

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

32.6 Fair value of financial assets and liabilities

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

		2007	2006
33	EARNINGS PER SHARE - BASIC AND DILUTED		
	Profit for the year (Rupees '000)	45,629,964	45,967,723
	Average number of shares outstanding during the year ('000)	4,300,928	4,300,928
	Earnings per share - basic (Rupees)	<u>10.61</u>	<u>10.69</u>
	There is no dilutive effect on the earnings per share of the Company.		
	Note	2007	2006
		(Rupees '000)	
34	CASH AND CASH EQUIVALENTS		
	Cash and bank balances	4,720,292	1,186,870
	Short term highly liquid investments	13,274,050	30,990,409
		<u>17,994,342</u>	<u>32,177,279</u>

Notes to the Financial Statements

for the year ended 30 June 2007

35 RELATED PARTIES TRANSACTIONS

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

	2007	2006
	(Rupees '000)	
Subsidiary		
Dividend income	250,800	376,200
Drilling services provided	-	23,484
Gas processing charges	160,601	111,313
Technical support provided	87,083	65,460
Reimbursement of payroll expense	88,122	63,888
Stores and supplies transferred	103,849	120,522
Rent of dehydration plant charged by the subsidiary	7,293	7,201
Mud services	-	217
Transfer of property, plant and equipment - book value	-	1,747
Receivable at the end of the year	61,338	27,682
Associated company		
Dividend income received	23,520	22,770
Related parties by virtue of common directorship and GoP holdings		
Sales of:		
Crude oil	9,233,717	45,672,942
Natural gas	49,759,427	53,213,081
Naphtha	3,119,878	2,855,446
Liquefied petroleum gas	121,177	260,710
Refined petroleum products	694,681	554,206
Naphtha handling and storage charges	124,458	129,038
Desalting/decanting charges paid	39,189	49,213

Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007	2006
		(Rupees '000)	
RELATED PARTIES TRANSACTIONS - Continued			
Crude oil transmission charges paid		-	11,522
Purchase of high BTU value gas		2,142,015	1,262,932
Pipeline rental charges		40,212	39,360
Purchase of petroleum, oil and lubricants		1,620,841	1,157,388
Insurance premium paid		559,838	440,874
Investment made		-	200,000
Crude transportation charges paid		833,686	655,003
Purchase of stores and spares		72,561	17,602
Receipts against long term receivables		533,400	533,400
V-sat charges		-	745
Consultancy services		31,098	39,109
Receivable at the end of the year		14,580,413	22,673,769
Other related parties			
Contribution to staff benefit funds		305,749	339,685
Remuneration including benefits and perquisites of chief executive	35.1	10,412	2,883
Remuneration including benefits and perquisites of executives	35.1	643,721	288,689

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



Notes to the Financial Statements

for the year ended 30 June 2007

35.1 REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

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

	2007		2006	
	Chief Executive	Executives	Chief Executives	Executives
	(Rupees '000)			
Managerial remuneration	6,915	232,002	1,660	110,112
Housing and utilities	1,437	149,765	751	64,135
Other allowances and benefits	2,027	244,959	377	95,729
Medical benefits	33	3,846	95	8,203
Contribution to pension fund	-	23,479	-	10,510
Leave encashment recovery	-	(10,330)	-	-
	<u>10,412</u>	<u>643,721</u>	<u>2,883</u>	<u>288,689</u>
Number of persons including those who worked part of the year	1	338	2	173

Executive means any employee whose basic salary exceeds Rs 500,000 (2006: Rs 500,000) per year.

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

The aggregate amount charged in these financial statements in respect of fee to 9 directors (2006: 10) was Rs 515,000 (2006: Rs 720,000).

36 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

36.1 International Financial Reporting Standard (IFRS) 6: "Exploration for and Evaluation of Mineral Resources" is effective for the annual periods beginning on or after 01 January 2007. However, the Company has opted for the early adoption of IFRS 6, for better presentation, which has no impact on the Company's existing policy for exploration and evaluation activities. The assets, liabilities and expenditure related to exploration and evaluation assets have been disclosed in note 15.2 to the financial statements. The adoption of IFRS 6 has no impact on the profit and loss account or retained earnings of the Company.

36.2 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".

Notes to the Financial Statements

for the year ended 30 June 2007

The Company's plant's control, due to purchase of total output by UPL an Independent Power Producer (IPP), appears to fall in the definition of leases. SECP has granted exemption to the IPPs with respect to the application of IFRIC-4. Management considers that being the counter party to the arrangement same exemption should also be granted to the Company. The management has applied for specific exemption the decision of which is still pending. Had this interpretation been applied, following material adjustments to profit and loss account and balance sheet would have been made:

	2007	2006
	(Rupees '000)	
Profit for the year	45,629,964	45,967,723
Depreciation reversed	891,537	891,537
Amortization reversed	19,622	19,902
Finance income recognized	2,843,936	2,461,840
Sales revenue reversed	(2,912,461)	(2,509,191)
Tax impact at estimated effective rate	(252,706)	(285,667)
	<u>46,219,892</u>	<u>46,546,144</u>
Unappropriated profit brought forward	54,488,409	42,572,724
Adjusted profit for the year	<u>46,219,892</u>	<u>46,546,144</u>
	<u>100,708,301</u>	<u>89,118,868</u>
Transfer to capital reserve	(219,201)	(223,031)
Dividends	(39,783,589)	(34,407,428)
Adjusted Unappropriated profit	<u>60,705,511</u>	<u>54,488,409</u>
Unappropriated profit	<u>55,169,140</u>	<u>49,541,966</u>
Increase in current liabilities	<u>(2,427,039)</u>	<u>(2,174,333)</u>
Decrease in development assets	<u>(786,186)</u>	<u>(805,808)</u>
Decrease in property, plant and equipment	<u>(891,537)</u>	<u>(1,783,074)</u>
Lease receivables recognized	<u>9,641,134</u>	<u>9,709,658</u>

36.3 The following standards, interpretations and amendments in approved accounting standards are only effective for accounting periods beginning on or after 01 July 2007. However, management believes that these standards and IFRICs either do not have any impact on the present transactions of the Company or the Company would be able to comply with these standards, IFRICs and amendments when applicable:

- IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures;
- IAS 23 - Borrowing Costs (as revised);
- IAS 41 - Agriculture;
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations;
- IFRIC 10 - Interim Financial Reporting and Impairment;
- IFRIC 11 - Group and Treasury Share Transactions;
- IFRIC 12 - Service Concession Arrangements;
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

Notes to the Financial Statements

for the year ended 30 June 2007

37 CORRESPONDING FIGURES

Previous year figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. For better presentation reclassifications made in the financial statements were as follows:

Reclassification from Component	Reclassification to Component	Amount (Rupees '000)
Stores held for capital expenditure	Property, plant and equipment	677,441
Stores, spare parts and loose tools	Exploration and evaluation assets	1,796,993
Loans and advances	Other receivables	533,400
Interest accrued	Long term investments	29,105

38 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors proposed final dividend at the rate of Rs 3.50 per share in its meeting held on 22 August 2007.

39 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 22 August 2007 by the Board of Directors of the Company.

40 GENERAL


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



Chairman and Chief Executive



Director

The background features a stylized bar chart with three bars of increasing height from left to right. A large, light-colored arrow points upwards from the top of the first bar, extending across the top of the chart area. The entire scene is set against a solid orange background with a subtle grid pattern.

Consolidated
Financial Statements
2007

Auditors' Report to the Members of Oil and Gas Development Company Limited

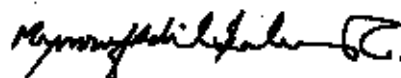
We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Oil and Gas Development Company Limited ("the Company") as at 30 June 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Oil and Gas Development Company Limited. The financial statements of subsidiary company were audited by M/s KPMG Taseer Hadi & Co., Chartered Accountants as sole auditors, whose report was forwarded to M/s M.Yousuf Adil Saleem & Co., Chartered Accountants and their opinion insofar as it relates to the amounts included for such company is based solely on the report of M/s KPMG Taseer Hadi & Co., Chartered Accountants. These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Company as at 30 June 2007 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.



KPMG TASEER HADI & Co.
Chartered Accountants
Islamabad
August 22, 2007



M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants
Islamabad
August 22, 2007



Consolidated Balance Sheet

as at 30 June 2007

	Note	2007 (Rupees '000)	2006
SHARE CAPITAL AND RESERVES			
Share capital	5	43,009,284	43,009,284
Capital reserve	6	3,274,228	3,055,027
Unappropriated profit		60,652,540	55,400,544
		106,936,052	101,464,855
NON CURRENT LIABILITIES			
Deferred taxation	7	11,078,919	10,195,201
Deferred employee benefits	8	1,423,132	1,420,245
Provision for decommissioning cost	9	6,049,620	5,036,478
		18,551,671	16,651,924
CURRENT LIABILITIES			
Trade and other payables	10	11,259,069	7,269,645
Provision for taxation	11	-	3,824,189
		11,259,069	11,093,834
CONTINGENCIES AND COMMITMENTS			
	12		
		136,746,792	129,210,613

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



Chairman and Chief Executive



	Note	2007 (Rupees '000)	2006
NON CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	13	21,810,882	20,773,660
Development and production assets - intangible	14	29,311,570	22,651,836
Exploration and evaluation assets	15	6,365,706	4,348,142
		57,488,158	47,773,638
Long term investments	16	2,610,267	2,402,435
Long term loans and receivables	17	1,685,589	2,154,705
Long term prepayments		39,821	58,022
		61,823,835	52,388,800
CURRENT ASSETS			
Stores, spare parts and loose tools	18	13,605,051	11,417,621
Stock in trade		93,788	65,608
Trade debts	19	28,018,145	24,500,791
Loans and advances	20	1,540,689	1,303,791
Deposits and short term prepayments	21	293,130	305,636
Interest accrued		318,444	526,913
Other receivables	22	1,335,255	1,087,579
Other financial assets	23	19,153,959	36,209,932
Advance tax	11	5,700,810	-
Cash and bank balances	24	4,863,686	1,403,942
		74,922,957	76,821,813
		136,746,792	129,210,613


Director



Consolidated Profit and Loss Account

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
Sales - net	25	100,733,011	97,309,036
Royalty		(10,936,421)	(10,944,671)
Operating expenses	26	(19,167,391)	(15,815,850)
Transportation charges		(1,087,931)	(942,163)
Gross profit		69,541,268	69,606,352
Other income	27	3,986,129	4,364,167
Exploration and prospecting expenditure	28	(7,406,280)	(3,680,707)
General and administration expenses	29	(1,289,647)	(1,077,159)
Provision for impairment loss	30	(375,000)	-
Finance costs	31	(532,670)	(9,981)
Workers' profit participation fund		(3,213,617)	(3,480,082)
Share of profit in associated company	16.1	44,326	34,638
PROFIT BEFORE TAXATION		60,754,509	65,757,228
Taxation	32	(15,499,723)	(19,953,830)
PROFIT FOR THE YEAR		45,254,786	45,803,398
Earnings per share - basic and diluted (Rupees)	34	10.52	10.65

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



Chairman and Chief Executive



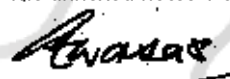
Director

Consolidated Cash Flow Statement

for the year ended 30 June 2007

	Note	2007	2006
		(Rupees '000)	
Cash flows from operating activities			
Profit before taxation		60,754,509	65,757,228
Adjustments for:			
Depreciation		3,202,112	2,598,545
Amortization of development and production assets		3,800,988	3,492,033
Impairment loss		375,000	-
Royalty		10,936,421	10,944,671
Workers' profit participation fund		3,213,617	3,480,082
Provision for employee benefits		198,035	258,134
Unwinding of discount on provision for decommissioning cost		526,790	-
Interest income		(3,636,515)	(3,814,039)
Unrealized gain on investments at fair value through profit or loss		(60,386)	(21,523)
Dividend income on NIT units		(26,333)	-
Gain on disposal of property, plant and equipment		(32,959)	(26,282)
Interest income on long term receivables		(134,517)	(172,571)
Share of profit in associated company		(44,326)	(34,638)
Provision for slow moving and obsolete stores		-	50,213
Provision for doubtful advances		(5,430)	(1,997)
		79,067,006	82,509,856
Working capital changes			
(Increase)/decrease in current assets:			
Stores, spare parts and loose tools		(2,187,430)	(5,232,642)
Stock in trade		(28,180)	(33,204)
Trade debts		(3,517,354)	(5,767,395)
Deposits and short term prepayments		12,506	(35,958)
Loans, advances and other receivables		394,923	236,361
Increase/(decrease) in current liabilities:			
Trade and other payables		1,192,297	1,216,183
Cash generated from operations		74,933,768	72,893,201
Royalty paid		(9,768,793)	(10,380,321)
Employee benefits paid		(327,302)	(1,349,931)
Payments to workers' profit participation fund - net		(3,484,051)	(3,390,949)
Income taxes paid		(24,141,004)	(14,270,523)
		(37,721,150)	(29,391,724)
Net cash from operating activities		37,212,618	43,501,477
Cash flows from investing activities			
Fixed capital expenditure		(16,476,617)	(10,157,421)
Interest received		4,034,617	5,529,958
Dividends received		49,853	22,770
Purchase of investments		(450,000)	(2,463,000)
Proceeds from encashment of investments		73,341	12,140
Proceeds from disposal of property, plant and equipment		35,462	29,437
Long term prepayments		18,200	(16,183)
Net cash used in investing activities		(12,715,144)	(7,042,299)
Cash flows from financing activities			
Dividends paid		(38,154,089)	(41,444,703)
Net cash used in financing activities		(38,154,089)	(41,444,703)
Net decrease in cash and cash equivalents		(13,656,615)	(4,985,525)
Cash and cash equivalents at beginning of the year		37,394,351	42,379,876
Cash and cash equivalents at end of the year	35	23,737,736	37,394,351

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



Chairman and Chief Executive



Director



Consolidated Statement of Changes in Equity

for the year ended 30 June 2007

	Share capital	Capital reserve Bonus shares	Specific	Unappropriated profit	Total equity
(Rupees '000)					
Balance at 01 July 2005	43,009,284	836,000	1,995,996	44,475,756	90,317,036
Effect of discounting of long term receivables	-	-	-	(248,151)	(248,151)
Balance at 01 July 2005, as restated	43,009,284	836,000	1,995,996	44,227,605	90,068,885
Changes in equity for the year ended 30 June 2006					
Final dividend 2005: Rs 2.75 per share	-	-	-	(11,827,553)	(11,827,553)
First interim dividend 2006: Rs 1.25 per share	-	-	-	(5,376,161)	(5,376,161)
Second interim dividend 2006: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2006: Rs 2.25 per share	-	-	-	(9,677,089)	(9,677,089)
Transfer to capital reserve	-	-	223,031	(223,031)	-
Profit for the year	-	-	-	45,803,398	45,803,398
Total recognized income for the year	-	-	-	45,803,398	45,803,398
Balance at 30 June 2006	43,009,284	836,000	2,219,027	55,400,544	101,464,855
Balance at 01 July 2006	43,009,284	836,000	2,219,027	55,400,544	101,464,855
Changes in equity for the year ended 30 June 2007					
Final dividend 2006: Rs 3.75 per share	-	-	-	(16,128,482)	(16,128,482)
First interim dividend 2007: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Second interim dividend 2007: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2007: Rs 2.00 per share	-	-	-	(8,601,857)	(8,601,857)
Transfer to capital reserve	-	-	219,201	(219,201)	-
Profit for the year	-	-	-	45,254,786	45,254,786
Total recognized income for the year	-	-	-	45,254,786	45,254,786
Balance at 30 June 2007	43,009,284	836,000	2,438,228	60,652,540	106,936,052

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



Chairman and Chief Executive



Director

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

1 LEGAL STATUS AND OPERATIONS

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

Government of Pakistan (GoP) divested 214,091,139 Ordinary shares being 4.98% of its shareholding in October 2003 through an Initial Public Offering. In December 2006, GoP further divested 408,588,000 Ordinary shares through secondary offering in the form of Global Depository Shares (1GDS = 10 Ordinary shares of the Parent Company) to international institutional investors including an offering of GDSs to certain qualified institutional buyers in the United States under Rule 144A of the Securities Act and secondary offering of Ordinary shares to local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 21,505,000 Ordinary shares to the general public in February 2007. Accordingly, GoP owns 85.02% (2006: 95.02%) of the Ordinary shares of the Parent Company as of 30 June 2007.

The Parent Company has a wholly owned subsidiary namely Pirkoh Gas Company (Private) Limited ("the Subsidiary Company"). The Subsidiary Company was incorporated in 1982 as a private limited company under the Companies Ordinance, 1984. It is engaged in the exploration and development of natural gas resources, including production and sale of natural gas and related activities. Due to significant sabotage events at the Pirkoh Gas Field of the Subsidiary Company, gas supply from the field remained suspended during first quarter of the year.

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

2 STATEMENT OF COMPLIANCE, BASIS OF CONSOLIDATION AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 BASIS OF CONSOLIDATION

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



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

2.3 SIGNIFICANT ESTIMATES

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

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

Judgments made by the management in the application of IASs 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.

2.3.1 Property, plant and equipment

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

2.3.2 Estimation of oil and natural gas reserves

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

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

2.3.3 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amount of provision recognized is 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.

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

2.3.4 Employee benefits

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

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

2.3.5 Taxation

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

3 ACCOUNTING CONVENTION

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 EMPLOYEE BENEFITS

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

4.1.1 Pension, post retirement medical benefits and accumulating compensated absences

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

The Group also provides post retirement medical benefits to its permanent employees and their families.

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



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

The Group makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried out as of 30 June 2007. The calculations of actuaries are based on the projected unit credit method, net of the assets guaranteeing the plan, if any, with the obligation increasing from year to year, in a manner that it is proportional to the length of service of the employees.

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

4.2 TAXATION

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

4.2.1 Current

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

4.2.2 Deferred

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

4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, 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 4.4.4 to the financial statements.

Depreciation is provided on straight line method at rates specified in note 13 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

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

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

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

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

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

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

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

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

4.4 OIL AND GAS ASSETS

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

4.4.1 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.



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

4.4.2 Exploration and evaluation assets

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

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

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

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

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

4.4.3 Development and production assets - intangible

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 4.4.2 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

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

4.4.4 Decommissioning cost

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

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

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

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

4.4.5 Impairment of oil and gas assets

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

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

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

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

4.5 INVESTMENTS

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



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

4.5.1 Investments in associated company

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

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

4.5.2 Investments held to maturity

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

4.5.3 Investments available for sale

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

4.5.4 Investments at fair value through profit or loss

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

4.6 STORES, SPARE PARTS AND LOOSE TOOLS

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

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

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

4.7 STOCK IN TRADE

Stock in trade is valued at the lower of production cost and net realizable value.

4.8 INTANGIBLES

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

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

4.9 REVENUE RE COGNITION

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

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

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

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

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

4.10 BORROWING COSTS

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

4.11 JOINT VENTURE OPERA TIONS

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

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

4.12 FOREIGN CURRENCIES

Pakistan rupee is the functional currency of the Group. 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 Pakistan rupees at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

4.13 PROVISIONS

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



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

4.14 FINANCIAL INSTRUMENTS

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

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

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at cost, fair value or amortized cost, as the case may be.

4.15 OFFSETTING

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

4.16 TRADE DEBTS

Trade debts are carried at nominal value less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

4.17 TRADE AND OTHER PAYABLES

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

4.18 CASH AND CASH EQUIVALENTS

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

4.19 DIVIDEND

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

4.20 SELF INSURANCE SCHEME

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

4.21 IMPAIRMENT

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

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

5 SHARE CAPITAL

Issued, subscribed and paid up capital

2007	2006		2007	2006
Number			(Rupees '000)	
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 5.1)	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>

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

Authorized share capital

This represents 5,000,000,000 (2006: 5,000,000,000) Ordinary shares of Rs 10 each.

6 CAPITAL RESERVE

	Note	2007	2006
		(Rupees '000)	
Bonus shares reserve	6.1	836,000	836,000
Specific reserve	6.2	2,438,228	2,219,027
		<u>3,274,228</u>	<u>3,055,027</u>

6.1 This represents bonus shares issued by the Subsidiary Company.

6.2 The Group has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation and vehicle repair. Refer note 16.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.

7 DEFERRED TAXATION

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

	2007	2006	
		(Rupees '000)	
Accelerated depreciation on property, plant and equipment	2,484,606	2,405,755	
Expenditure of exploration and evaluation and development and production assets	8,976,937	8,160,917	
Provision for doubtful debts	(127,592)	(88,186)	
Provision for slow moving and obsolete stores	(255,032)	(283,285)	
	<u>11,078,919</u>	<u>10,195,201</u>	



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

Deferred tax liability has been calculated at the current effective tax rate of 28.96% (2006: 33.06%) after taking into account depletion allowance and set offs, where available, in respect of royalty payments to the GoP.

	Note	2007 (Rupees '000)	2006
8 DEFERRED EMPL OYEE BENEFITS			
Post retirement medical benefits	8.1	807,382	773,457
Accumulating compensated absences	8.2	615,750	646,788
		<u>1,423,132</u>	<u>1,420,245</u>
8.1 Post retirement medical benefits			
The amount recognized in the balance sheet is as follows:			
Present value of defined benefit obligation		608,371	538,894
Un-recognized actuarial gain		199,011	234,563
Net liability at end of the year		<u>807,382</u>	<u>773,457</u>
Movement in the present value of defined benefit obligation is as follows:			
Present value of defined benefit obligation at beginning of the year		538,894	450,173
Current service cost		24,173	17,362
Interest cost		53,889	45,017
Benefits paid		(21,553)	(19,793)
Actuarial loss		12,968	46,135
Present value of defined benefit obligation at end of the year		<u>608,371</u>	<u>538,894</u>
Expense recognized in profit and loss account:			
Current service cost		24,173	17,362
Interest cost		53,889	45,017
Net actuarial gain recognized		(22,584)	(29,460)
		<u>55,478</u>	<u>32,919</u>
The expense is recognized in the following line items in profit and loss account:			
Operating expenses		28,825	27,812
General and administration expenses		3,953	5,107
Technical services		22,700	-
		<u>55,478</u>	<u>32,919</u>
Significant actuarial assumptions used were as follows:			
Discount rate per annum		10%	10%
Medical inflation rate per annum		6%	6%
Inflation rate per annum		2%	2%
Mortality rate		61~66 years	61~66 years
A one percent change in the medical cost trend rate would have the following effect:			
		1% increase	1% decrease
Present value of medical obligation		714,303	523,411
Current service cost and interest cost		102,094	72,526

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
8.2 Accumulating compensated absences		
Present value of defined benefit obligation	646,788	583,426
Charge for the year	(31,038)	63,362
Net liability at end of the year	<u>615,750</u>	<u>646,788</u>

The rates of discount and salary increase were assumed at 10% (2006: 10%) each per annum.

	2007	2006
	(Rupees '000)	
9 PROVISION FOR DECOMMISSIONING COST		
Balance at beginning of the year	5,036,478	8,965,834
Provision made during the year	486,352	669,851
	<u>5,522,830</u>	<u>9,635,685</u>
Reversal of provision due to change in estimates	-	(4,599,207)
Unwinding of discount on provision for decommissioning cost	526,790	-
Balance at end of the year	<u>6,049,620</u>	<u>5,036,478</u>
The above provision for decommissioning cost is analyzed as follows:		
Wells	4,875,720	4,565,974
Production facilities	647,110	470,504
Unwinding of discount on provision for decommissioning cost		
Wells	462,144	-
Production facilities	64,646	-
	<u>526,790</u>	<u>-</u>
	<u>6,049,620</u>	<u>5,036,478</u>

Significant assumptions used were as follows:

	Per annum	
Discount rate	10.2%	10.2%
Inflation rate	7.63%	7.63%

	Note	2007	2006
		(Rupees '000)	
10 TRADE AND OTHER PAYABLES			
Creditors		290,116	172,665
Accrued liabilities		3,419,242	2,344,755
Royalty		2,456,542	1,288,914
Excise duty		105,700	97,996
General sales tax		1,371,030	1,329,134
Payable to joint venture partners		1,028,288	1,071,201
Retention money		212,766	212,454
Trade deposits		94,581	92,581
Unpaid dividend		2,102,291	237
Unclaimed dividend		65,790	538,344
Employees' pension trust	10.1	-	-
Advances from customers		35,756	56,563
Other payables		76,967	64,801
		<u>11,259,069</u>	<u>7,269,645</u>



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
10.1 Employees' pension trust		
The amount recognized in the balance sheet is as follows:		
Present value of defined benefit obligation	9,320,649	7,622,259
Fair value of plan assets	(9,179,845)	(8,340,395)
Deficit/(surplus) of the fund	140,804	(718,136)
Un-recognized actuarial (gain)/loss	(140,804)	718,136
Net liability at end of the year	-	-
The movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation at beginning of the year	7,622,259	7,543,651
Current service cost	377,563	297,080
Interest cost	762,226	747,913
Benefits paid	(231,530)	(261,629)
Actuarial loss/(gain)	790,131	(704,756)
Present value of defined benefit obligation at end of the year	9,320,649	7,622,259
The movement in the fair value of plan assets is as follows:		
Fair value of plan assets at beginning of the year	8,340,395	7,543,484
Expected return on plan assets	834,040	754,348
Contributions	305,749	339,685
Benefits paid	(231,530)	(261,629)
Actuarial loss	(68,809)	(35,493)
Fair value of plan assets at end of the year	9,179,845	8,340,395
Expense recognized in profit and loss account:		
Current service cost	377,563	297,080
Interest cost	762,226	747,913
Expected return on plan assets	(834,040)	(754,348)
	305,749	290,645
Plan assets comprise:		
Bonds	8,567,514	7,082,842
Equity	607,943	-
Cash and bank balances	4,388	1,257,553
	9,179,845	8,340,395
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	134,149	123,985
General and administration expenses	62,146	56,987
Technical services	109,454	109,673
	305,749	290,645
Actual return on plan assets	765,000	750,000

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for the year ended 30 June 2007

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:

	2007	2006	2005 (Rupees '000)	2004	2003
Present value of defined benefit obligation	9,320,649	7,622,259	7,543,651	6,325,301	4,661,329
Fair value of plan assets	(9,179,845)	(8,340,395)	(7,543,484)	(7,423,308)	(4,101,349)
Deficit/(surplus)	140,804	(718,136)	167	(1,098,007)	559,980
Experience adjustments on obligation	(790,131)	704,756	(595,374)	(1,193,227)	(687,272)
Experience adjustments on plan assets	(68,809)	(35,493)	(455,275)	2,973,112	208,016

Significant actuarial assumptions used were as follows:

	2007 Per annum	2006
Discount rate	10%	10%
Rate of increase in future compensation levels	10%	10%
Expected rate of return on plan assets	10%	10%
Indexation rate	3%	3%

	2007 (Rupees '000)	2006
11 PROVISION FOR TAXATION		
Tax payable/(advance tax) at beginning of the year	3,824,189	(979,229)
Income tax paid during the year	(24,141,004)	(14,270,523)
Provision for current taxation	14,616,005	19,073,941
(Advance tax)/tax payable at end of the year	(5,700,810)	3,824,189

12 CONTINGENCIES AND COMMITMENTS

- 12.1** Claims against the Parent Company not acknowledged as debts amounted to Rs 232.491 million at year end (2006: Rs 494.876 million).
- 12.2** Commitments outstanding against the Parent Company at year end amounted to Rs 12,256.639 million (2006: Rs 7,027.459 million). These included amounts aggregating to Rs 2,672.684 million (2006: Rs 2,527.456 million) representing the Parent Company's share in the minimum work commitments related to operated/non-operated concessions.
- 12.3** Letters of credit issued by various banks on behalf of the Parent Company in ordinary course of the business, outstanding at the year end amounted to Rs 4,318.176 million (2006: Rs 6,589.035 million).
- 12.4** Certain banks have issued guarantees on behalf of the Parent Company in ordinary course of business aggregating to Rs 104.844 million at year end (2006: Rs 106.823 million), refer note 24.1 to the financial statements.
- 12.5** For contingencies relating to tax matters, refer note 32.2 to the financial statements.



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

13 PROPERTY, PLANT AND EQUIPMENT

(Rupees 000)

Description	Freehold land	Leasehold land	Buildings, offices and roads on freehold land	Buildings, offices and roads on leasehold land	Plant and machinery	Rigs	Pipelines	Office and domestic equipment	Office and technical data computers	Furniture and fixtures	Aircraft	Vehicles	De-commissioning cost	Capital works in progress (Note 13.3)	Stores held for capital expenditure	Total
Cost																
Balance as at 01 July 2005	139,019	363,026	1,696,160	750,432	35,024,906	7,36,143	4,294,353	375,076	421,104	51,906	19,855	2,138,704	631,168	1,174,290	802,041	48,623,183
Additions	8947	10,672	129,362	35,488	1,840,027	142,646	174,395	75,516	63,256	1,173	-	315,225	21,190	594,141	59,615	3,471,651
Disposals/transfers	-	-	(1,888)	-	(31,429)	(5,270)	-	(2,305)	(1)	-	-	(75,699)	(181,854)	(682,586)	(184,215)	(1,169,359)
Adjustments	-	-	-	1,888	(3,505,761)	-	3,505,761	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2006	147,966	373,698	1,823,634	787,806	33,321,743	873,519	7,974,509	448,287	484,359	53,079	19,855	2,378,230	470,504	1,090,845	677,441	50,925,475
Balance as at 01 July 2006	147,966	373,698	1,823,634	787,806	33,321,743	873,519	7,974,509	448,287	484,359	53,079	19,855	2,378,230	470,504	1,090,845	677,441	50,925,475
Additions	7,125	2,821	114,715	31,004	1,797,008	152,361	434,448	44,590	83,976	5,691	-	706,502	176,606	752,871	388,578	4,699,294
Disposals/transfers	-	-	-	-	(28,026)	(5,195)	-	(4,002)	(13,264)	-	-	(71,579)	-	(37,233)	(62,235)	(79,534)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2007	155,091	376,519	1,938,347	818,810	35,092,725	1,020,685	8,408,957	468,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
Depreciation																
Balance as at 01 July 2005	-	115,863	361,581	288,885	20,698,917	572,988	2,729,578	299,385	384,201	15,891	17,889	1,862,134	78,972	-	-	27,426,244
Charge for the year	-	10,160	95,302	61,963	2,037,402	27,814	390,442	20,992	32,356	6,444	-	118,083	41,161	-	-	2,843,119
On disposals/transfers	-	-	-	-	(35,260)	(5,193)	-	(2,224)	-	-	-	(74,871)	-	-	-	(17,548)
Balance as at 30 June 2006	-	126,023	456,883	350,848	22,701,059	595,589	3,120,020	318,153	416,557	22,335	17,889	1,906,346	120,133	-	-	30,151,815
Balance as at 01 July 2006	-	126,023	456,883	350,848	22,701,059	595,589	3,120,020	318,153	416,557	22,335	17,889	1,906,346	120,133	-	-	30,151,815
Charge for the year	-	10,157	94,078	94,760	1,979,692	49,404	739,592	30,027	42,724	6,909	-	182,040	88,842	-	139,954	3,458,179
On disposals/transfers	-	-	-	-	(25,752)	(5,153)	-	(3,853)	(3,140)	-	-	(69,665)	-	-	-	(17,563)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2007	-	136,180	550,961	445,608	24,654,999	639,840	3,859,612	344,327	446,141	29,244	17,889	2,018,721	208,975	-	139,954	33,692,431
Impairment loss																
Balance as at 01 July 2006	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Balance as at 30 June 2007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Carrying amount - 2006	147,966	247,675	1,366,751	436,958	10,620,684	277,930	4,854,489	130,134	67,802	30,744	1,986	471,884	350,371	1,090,845	677,441	20,773,660
Carrying amount - 2007	155,091	240,339	1,387,386	373,202	10,437,726	380,845	4,546,345	144,548	108,930	29,526	1,986	994,432	438,135	1,806,483	864,830	21,810,882
Rates of depreciation (%)	-	1-3.3	2.5-8	2.5-8	4-20	10	10	15	30	15	10	20	1-10	-	2.5	-

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

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- 13.1** Cost and accumulated depreciation as at 30 June 2007 include Rs 12,743.355 million (2006: Rs 11,601.413 million) and Rs 7,190.478 million (2006: Rs 6,159.241 million) respectively being the Parent Company's share in property, plant and equipment relating to joint ventures operated by others.

	Note	2007	2006
(Rupees '000)			
13.2 The depreciation charge has been allocated to:			
Operating expenses	26	3,103,436	2,517,425
General and administration expenses	29	98,676	81,120
Technical services		256,067	244,574
		3,458,179	2,843,119

13.3 Capital works in progress

Production facilities and other civil works in progress:

Wholly owned	679,863	487,486
Joint ventures	1,073,058	578,013
	1,752,921	1,065,499
Construction cost of field offices and various bases/offices owned by the Parent Company	53,562	25,346
	1,806,483	1,090,845

13.4 Details of property, plant and equipment sold:

	Cost	Book value	Sale proceeds
(Rupees)			
Vehicles sold to following retiring employees as per Group's policy:			
Hafiz M. Rehman	939,000	159,772	171,639
Mr. Khalid Feroz	939,000	222,305	231,774
Mr. Altaf Hussain	548,780	36,718	65,233
Mr. Pervez A Khan	548,780	73,273	77,839
Mr. Tariq	548,780	48,424	50,225
M. Maas Siddique	555,000	185,667	233,422
Mr. Sajjad Ahmed	943,000	582,454	612,655
Mr. Manzoor Sultan	939,000	234,750	263,640
Mr. Tariq Athar Kidwai	604,300	1,000	1,000
Mr. Saad Ullah Khan Safi	604,300	1,000	1,000
Mr. Obed-ur-Rehman Paracha	939,000	107,692	118,186
Mr. Asad Ullah Sheikh	939,000	172,967	244,632
	9,047,940	1,826,022	2,071,245
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.	111,018,639	677,800	33,391,000
	2007	2,503,822	35,462,245
	2006	3,155,259	29,436,905



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

14 DEVELOPMENT AND PRODUCTION ASSETS - Intangible

(Rupees '000)

Description	Producing fields		Shut-in fields		Wells in progress (Note 14.1)	Sub total	Decommissioning cost	Total
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				
Cost								
Balance as at 01 July 2005	15,268,074	14,149,413	738,128	1,989,786	993,002	33,138,403	8,334,666	41,473,069
Additions	1,831,969	3,257,590	175,055	1,107,032	4,592,576	10,964,222	(3,137,621)	7,826,601
Transfers	-	-	-	-	(4,361,395)	(4,361,395)	(631,071)	(4,992,466)
Balance as at 30 June 2006	17,100,043	17,407,003	913,183	3,096,818	1,224,183	39,741,230	4,565,974	44,307,204
Balance as at 01 July 2006	17,100,043	17,407,003	913,183	3,096,818	1,224,183	39,741,230	4,565,974	44,307,204
Additions	4,544,434	2,834,346	766,302	1,403,482	5,879,043	15,427,607	309,746	15,737,353
Transfers	-	-	-	-	(5,003,553)	(5,003,553)	-	(5,003,553)
Balance as at 30 June 2007	21,644,477	20,241,349	1,679,485	4,500,300	2,099,673	50,165,284	4,875,720	55,041,004
Amortization								
Balance as at 01 July 2005	9,647,197	5,625,552	78,992	56,877	-	15,408,618	2,754,717	18,163,335
Charge for the year	1,398,346	1,643,342	289,089	84,208	-	3,414,985	77,048	3,492,033
Balance as at 30 June 2006	11,045,543	7,268,894	368,081	141,085	-	18,823,603	2,831,765	21,655,368
Balance as at 01 July 2006	11,045,543	7,268,894	368,081	141,085	-	18,823,603	2,831,765	21,655,368
Charge for the year	1,779,065	1,745,631	4,360	148	-	3,529,204	271,784	3,800,988
Balance as at 30 June 2007	12,824,608	9,014,525	372,441	141,233	-	22,352,807	3,103,549	25,456,356
Impairment loss								
Balance as at 01 July 2006	-	-	-	-	-	-	-	-
Charge for the year	162,213	-	-	-	-	162,213	110,865	273,078
Balance as at 30 June 2007	162,213	-	-	-	-	162,213	110,865	273,078
Carrying amount - 2006	6,054,500	10,138,109	545,102	2,955,733	1,224,183	20,917,627	1,734,209	22,651,836
Carrying amount - 2007	8,657,656	11,226,824	1,307,044	4,359,067	2,099,673	27,650,264	1,661,306	29,311,570

2007
(Rupees '000)

2006

14.1 Wells in progress

Wholly owned
Joint ventures

673,135	197,161
1,426,538	1,027,022
2,099,673	1,224,183

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
15 EXPLORATION AND EVALUATION ASSETS			
Balance at beginning of the year		2,551,149	1,225,968
Additions		8,069,762	4,847,558
		10,620,911	6,073,526
Cost of dry and abandoned wells	28	(4,200,530)	(1,512,128)
Cost of wells transferred to development and production assets		(4,545,011)	(2,010,249)
		(8,745,541)	(3,522,377)
		1,875,370	2,551,149
Stores held for exploration and evaluation activities	15.1	4,490,336	1,796,993
Balance at end of the year		6,365,706	4,348,142
15.1 Stores held for exploration and evaluation activities			
Balance at beginning of the year		1,796,993	533,994
Additions		3,856,654	1,872,609
Issuances		(1,163,311)	(609,610)
Balance at end of the year		4,490,336	1,796,993
15.2 The following disclosures detail the liabilities, other assets and expenditure incurred on exploration for and evaluation of mineral resources:			
	Note	2007 (Rupees '000)	2006
Liabilities related to exploration and evaluation		526,695	678,374
Current assets related to exploration and evaluation		401,308	349,318
Exploration and prospecting expenditure	28	7,406,280	3,680,707
16 LONG TERM INVESTMENTS			
Investments in related party	16.1	155,829	135,023
Investments held to maturity	16.2	2,454,438	2,267,412
		2,610,267	2,402,435



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
16.1 Associated Company - quoted			
Mari Gas Company Limited		135,023	123,155
Percentage holding 20% (2006: 20%) 7,350,000 (2006: 7,350,000) fully paid Ordinary shares of Rs 10 each Market value Rs 1,286 million (2006: Rs 930 million)			
Share of profit for the year		44,326	34,638
Dividend received		(23,520)	(22,770)
		20,806	11,868
		155,829	135,023
16.2 Investments held to maturity			
Defence Saving Certificates (DSCs)	16.2.1	389,097	673,307
Term Deposit Receipts (TDRs)	16.2.2	2,065,341	1,594,105
		2,454,438	2,267,412

16.2.1 Face value of investments in DSCs is Rs 84.908 million (2006: Rs 158.249 million). These carry effective interest rates ranging between 16% to 18% (2006: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2007 to 2009.

16.2.2 Face value of investments in TDRs is Rs 2,015 million (2006: Rs 1,565 million). These have maturity period up to six months and carry effective interest rates of 10.80% to 11.60% (2006: 11% to 11.1%). These are due to mature in 2007.

16.2.3 Investments amounting to Rs 2,255.354 million (2006: Rs 1,937.602 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments to the extent of capital reserve.

16.2.4 These investments are identified against capital reserve as explained in note 6 to the financial statements.

	Note	2007 (Rupees '000)	2006
17 LONG TERM LOANS AND RECEIVABLES			
Long term loans - secured	17.1	1,117,755	919,725
Long term receivables - unsecured	17.2	567,834	1,234,980
		1,685,589	2,154,705

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	Note	2007 (Rupees '000)	2006
17.1 Long term loans - secured			
Considered good:			
Executives		71,034	25,341
Other employees		1,237,189	1,058,237
		1,308,223	1,083,578
Current portion shown under loans and advances	20	(190,468)	(163,853)
		1,117,755	919,725

17.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at 01 July 2006	Disbursements during the year	Repayments during the year	Balance as at 30 June 2007
		(Rupees '000)		
Due from:				
Executives	25,341	60,629	14,936	71,034
Other employees	1,058,237	363,427	184,475	1,237,189
	1,083,578	424,056	199,411	1,308,223

17.1.2 The loans are granted to the employees of the Group in accordance with the Group's service rules. House building and conveyance loans are for maximum period of 15 and 5 years respectively. These loans are secured against the underlying assets. Included in these are loans of Rs 1,043.686 million (2006: Rs 860.964 million) which carry no interest. The balance amount carries an effective interest rate of 10.65% (2006: 8.22%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 85.97 million (2006: Rs 25.341 million).

	Note	2007 (Rupees '000)	2006
17.2 Long term receivables - unsecured			
Considered good		1,487,089	2,350,325
Impairment loss - net		(70,905)	(266,995)
		1,416,184	2,083,330
Current portion shown under other receivables	22	(848,350)	(848,350)
		567,834	1,234,980



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for the year ended 30 June 2007

Long term receivables include Rs 533.400 million (2006: Rs 1,066.800 million) receivable by the Parent Company from Water and Power Development Authority (WAPDA) on account of overdue balances of gas companies transferred to WAPDA as a result of inter-corporate debt adjustment approved by the GoP in April 1999. Pursuant to the Economic Coordination Committee (ECC) of Cabinet decision in November 2001 and waiver of interest by the President of Pakistan in June 2002, the Parent Company entered into agreements with three power generating companies namely Jamshoro Power Generation Company, Central Power Generation Company and Northern Power Generation Company on 01 July 2002.

An amount of Rs 887.0625 million (2006: Rs 1,027.125 million) and Rs 128.200 million (2006: Rs 256.400 million) included in the above represents amount receivable by the Subsidiary Company from Karachi Electric Supply Corporation Limited (KESC) and WAPDA, respectively as a result of the inter corporate adjustment pursuant to the ECC in February 1999. The amount from KESC is receivable in 32 equal quarterly installments of Rs 46.687 million each commencing from February 2004, while receivable from WAPDA is due in 10 equal semi annual installments of Rs 64 million starting from July 2003.

These receivables carry no interest and are repayable in 5 years with one year grace period. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" an impairment loss is recognized on these receivables which is the difference between the carrying amount and present value of expected future cash flows discounted at 7.5% per annum, representing the imputed rate for interest calculation.

	2007	2006
	(Rupees '000)	
18 STORES, SPARE PARTS AND L OOSE T OOLS		
Stores, spare parts and loose tools	12,382,873	10,170,653
Stores and spare parts in transit	2,093,208	2,117,998
	14,476,081	12,288,651
Provision for slow moving and obsolete stores	(871,030)	(871,030)
	13,605,051	11,417,621
19 TRADE DEBTS		
Un-secured, considered good	28,018,145	24,500,791
Un-secured, considered doubtful	177,737	177,737
	28,195,882	24,678,528
Provision for doubtful debts	(177,737)	(177,737)
	28,018,145	24,500,791

19.1 Trade debts include an amount of Rs 4,354 million (2006: Rs 4,265 million) withheld by Uch Power Limited (UPL) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to the proposal and this has resulted in liquidated damages of Rs 1,054 million (2006: Rs 1,006 million) for the year.

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

19.2 Trade debts also include an amount of Rs 5,379 million (2006: Rs 1,768 million) which has been withheld by the refineries under the directive of Ministry of Petroleum and Natural Resources and represents revenue on crude oil in excess of USD 50 per barrel for which discount table is yet to be finalized.

19.3 Also included in trade debts is an amount of Rs 3,288 million (2006: Rs 2,586 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.

	Note	2007 (Rupees '000)	2006
20 LOANS AND ADVANCES			
Advances considered good:			
Suppliers and contractors		686,002	317,465
Joint venture partners		637,527	799,664
Others		26,692	22,809
		1,350,221	1,139,938
Current portion of long term loans - secured	17.1	190,468	163,853
		1,540,689	1,303,791
Advances considered doubtful		263,622	269,052
		1,804,311	1,572,843
Provision for doubtful advances		(263,622)	(269,052)
		1,540,689	1,303,791
21 DEPOSITS AND SHORT TERM PREPAYMENTS			
Security deposits		8,888	8,699
Short term prepayments		284,242	296,937
		293,130	305,636
22 OTHER RECEIVABLES			
Development surcharge		76,307	76,115
Current portion of long term receivables - unsecured	17.2	848,350	848,350
Claims receivable		19,209	14,940
Workers' profit participation fund	22.1	302,467	32,033
Others		88,922	116,141
		1,335,255	1,087,579



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for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
22.1 Workers' profit participation fund			
Receivable at beginning of the year		32,033	121,166
Paid to the fund during the year		3,515,034	3,390,949
		<u>3,547,067</u>	<u>3,512,115</u>
Received during the year		(30,983)	-
Charge for the year		(3,213,617)	(3,480,082)
Receivable at end of the year		<u>302,467</u>	<u>32,033</u>
23 OTHER FINANCIAL ASSETS			
Investments:			
At fair value through profit or loss - NIT units		279,909	219,523
Available for sale	23.1	<u>18,874,050</u>	<u>35,990,409</u>
		<u>19,153,959</u>	<u>36,209,932</u>

23.1 These represent investments in TDRs maturing in the short term and carry interest rate of 5.2% to 12.15% (2006: 4% to 11.4%) per annum. Included in these investments are foreign currency TDRs amounting to USD 65 million (2006: USD 57 million).

	Note	2007 (Rupees '000)	2006
24 CASH AND BANK BALANCES			
Cash at bank:			
Deposit accounts	24.1	4,677,795	1,234,452
Current accounts		156,000	137,913
		<u>4,833,795</u>	<u>1,372,365</u>
Cash in hand		28,206	28,672
Cash in transit		1,685	2,905
		<u>4,863,686</u>	<u>1,403,942</u>

24.1 Deposit accounts include foreign currency deposits amounting to USD 14.71 million (2006: USD 7.85 million) and carry interest rate of 1.5% to 9.5% (2006: 2.8% to 9.5%) per annum. Deposits amounting to Rs 104.844 million (2006: Rs 106.823 million) with banks were under lien to secure bank guarantees issued on behalf of the Parent Company.

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
25 SALES - net			
Gross sales			
Crude oil		50,502,930	45,415,285
Gas		57,738,726	61,075,573
Kerosene oil		528,684	540,714
High speed diesel oil		439,509	414,990
Solvent oil		44,810	238,455
Naphtha		3,119,878	2,855,446
Liquefied petroleum gas		4,569,446	2,633,917
Sulphur		126,821	196,723
Other operating revenue	25.1	63,581	13,313
		117,134,385	113,384,416
Government levies			
Excise duty		(1,446,060)	(1,525,770)
Development surcharge		(51,138)	(50,280)
General sales tax		(14,904,176)	(14,499,330)
		(16,401,374)	(16,075,380)
		100,733,011	97,309,036
25.1 Other operating revenue			
Gas processing		29,925	-
Seismic data		-	2,393
Drilling services		-	-
Mud engineering services		33,656	10,920
		63,581	13,313



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
26 OPERATING EXPENSES			
Salaries, wages and benefits	26.1	2,705,165	2,470,512
Traveling and transportation		315,714	308,498
Repairs and maintenance		870,245	627,933
Stores and supplies consumed		796,981	802,332
Rent, fee and taxes		304,900	323,299
Insurance		238,642	226,141
Communication		31,515	32,907
Utilities		26,163	16,653
Land and crops compensation		180,655	131,156
Contract services		816,942	533,481
Joint venture expenses		1,844,426	1,669,655
Desalting, decanting and naphtha storage charges		189,539	198,082
Charges related to minimum supply of gas - liquidated damages		1,054,049	1,005,748
Adjustment on discount on trade debts		1,478,302	-
Welfare of locals at fields		140,165	228,260
Provision for slow moving and obsolete inventory		-	50,213
Workover charges		475,259	409,320
Depreciation	13.2	3,103,436	2,517,425
Amortization of development and production assets	14	3,800,988	3,492,033
Transfer from general and administration expenses	29	820,737	801,353
Miscellaneous		1,748	4,053
		19,195,571	15,849,054
Stock of crude oil and other products:			
Balance at beginning of the year		65,608	32,404
Balance at end of the year		(93,788)	(65,608)
		19,167,391	15,815,850

26.1 These include amount in respect of employee retirement benefits of Rs 162.974 million (2006: Rs 151.797 million).

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for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
27 OTHER INCOME			
Income from financial assets			
Interest income on:			
Investments and bank deposits		3,636,515	3,814,039
Long term receivables		134,517	172,571
Delayed payments from joint venture partners		-	55,547
Delayed payments from customers		24,263	6,504
		3,795,295	4,048,661
Dividend income:			
NIT units		26,333	-
Unrealized gain on investments at fair value through profit or loss		60,386	21,523
Exchange (loss)/gain		(64,984)	167,726
		3,817,030	4,237,910
Income from non financial assets			
Gain on disposal of property, plant and equipment		32,959	26,282
Gain/(loss) on disposal of stores		52,647	(2,320)
Write back of provision for benevolent fund		-	19,119
Others		83,493	83,176
		169,099	126,257
		3,986,129	4,364,167
28 EXPLORATION AND PROSPECTING EXPENDITURE			
Cost of dry and abandoned wells	15	4,200,530	1,512,128
Prospecting expenditure		3,205,750	2,168,579
		7,406,280	3,680,707



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
29 GENERAL AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	29.1	1,133,382	1,019,635
Traveling and transportation		155,050	134,965
Repairs and maintenance		35,054	44,576
Stores and supplies consumed		119,236	118,960
Rent, fee and taxes		54,097	32,065
Communication		41,928	35,524
Utilities		41,201	38,352
Training and scholarships		20,911	16,360
Legal services		18,641	5,005
Contract services		74,906	65,336
Auditors' remuneration	29.2	9,459	6,632
Advertising		26,220	55,781
Joint venture expenses		394,117	428,839
Insurance		748	1,944
Donations	29.3	347,011	61,764
Aircraft expenses		6,352	6,065
Unallocated expenses of rigs		75,604	215,746
Depreciation	13.2	98,676	81,120
Miscellaneous		8,319	12,586
		2,660,912	2,381,255
Allocation of expenses to:			
Operations	26	(820,737)	(801,353)
Technical services		(550,528)	(502,743)
		(1,371,265)	(1,304,096)
		1,289,647	1,077,159

29.1 These include amount in respect of employee retirement benefits of Rs 66.099 million (2006: Rs 62.094 million).

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	(Rupees '000)	
29.2 Auditors' remuneration		
M/s KPMG Taseer Hadi & Co., Chartered Accountants		
Annual audit fee	1,100	968
Subsidiary annual audit fee	110	110
Half yearly review	300	300
Out of pocket expenses	189	173
Audit of consolidated financial statements	230	212
Concession audit fee	1,700	1,300
Quarterly review of consolidated financial statements	1,125	-
Dividend certification	50	150
Local retail offering of shares	325	-
	5,129	3,213
M/s M. Yousuf Adil Saleem & Co., Chartered Accountants		
Annual audit fee	1,100	968
Half yearly review	300	300
Out of pocket expenses	175	159
Audit of consolidated financial statements	230	212
Verification of CDC record	-	150
Concession audit fee	1,770	1,450
Certification of fee payable to OGRA	180	180
Dividend certification	250	-
Local retail offering of shares	325	-
	4,330	3,419
	9,459	6,632

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

30 PROVISION FOR IMPAIRMENT LOSS

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

	2007	2006
	(Rupees '000)	
Property, plant and equipment	91,918	-
Development and production assets	162,213	-
Decommissioning cost:		
Property, plant and equipment	10,004	-
Development and production assets	110,865	-
	120,869	-
	375,000	-



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007 (Rupees '000)	2006
31 FINANCE COSTS			
Unwinding of discount on provision for decommissioning cost		526,790	-
Bank charges		5,880	9,981
		<u>532,670</u>	<u>9,981</u>
32 TAXATION			
Provision for current taxation - for the year		14,616,005	19,073,941
Provision for deferred taxation		883,718	879,889
	32.1	<u>15,499,723</u>	<u>19,953,830</u>
32.1 Reconciliation of tax charge for the year:			
Accounting profit		60,754,509	65,757,228
Tax rate		52.68%	53.20%
Tax on accounting profit at applicable rate		32,008,340	34,980,184
Tax effect of amounts/expenses that are inadmissible for tax purposes		9,591,618	9,768,227
Tax effect of amounts/expenses that are admissible for tax purposes		(9,286,561)	(8,228,953)
Tax effect of royalty allowed for tax purposes		(10,936,423)	(10,944,671)
Tax effect of depletion allowance for tax purposes		(8,018,868)	(7,840,622)
Dividend chargeable to tax at reduced rate		14,197	19,949
Income chargeable to tax at corporate rates		1,262,974	1,319,827
Tax effect of business loss adjusted against royalty		(19,272)	-
Tax effect of timing differences		883,718	879,889
		<u>15,499,723</u>	<u>19,953,830</u>
32.2 Contingencies relating to tax			

Parent Company

Re-assessment proceedings for assessment years 1996-97 to 2002-03, tax years 2003 and 2004 are pending before the Taxation Officer in the light of the order of the Commissioner of Income Tax - Appeals (CIT(A)) and decision of the adjudicator appointed by both the Parent Company as well as the Central Board of Revenue (CBR) on the issues of decommissioning cost and depletion allowance. The Parent Company is also in appeal before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1996-97 to 2002-03 and tax year 2003 and 2004 which are currently pending for adjudication.

On the basis of judgment of the adjudicator and the revised assessment an amount of Rs 4,686.026 million is refundable as against the demand created by the department of Rs 346.196 million for assessment years 1992-93 to 2002-03 and tax years 2003 and 2004. The provision for taxation in the financial statements has been made in accordance with the decision of the adjudicator.

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

Contingencies relating to tax - continued

The Parent Company filed an application to CBR for resolution of the issues of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment years 1996-97 to 2002-03 and tax years 2003 and 2004. The Order on ADRC recommendation has been issued by CBR where it has decided not to intervene. Accordingly, the issues involved will be settled at appellate forums.

Pending the outcome of these appeals, no provision has been made in these financial statements for such demands as the management is confident that the appeals will be decided in the Parent Company's favour in line with the adjudication orders. However, pending the final outcome in this regard, the Parent Company is contingently liable to an amount of Rs 7,297.392 million as at 30 June 2007.

Subsidiary Company

While framing assessment for the year 2002-03 the tax authorities disallowed decommissioning cost, provision for slow moving and obsolete items and recalculated depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company. The net tax effect of said adjustment is Rs 315.178 million which has been adjusted against determined refunds of the Subsidiary Company. Currently, Subsidiary Company's appeal is pending before Commissioner of Income Tax (Appeals).

Further the tax authorities in framing re-assessment for assessment year 2001-02 have again calculated the depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company. The net tax effect of which comes to Rs 66.212 million.

In addition to above, the Subsidiary Company filed an application to CBR for resolution of the issue of decommissioning cost and depletion allowance through ADRC for the assessment year 1998-99, 2001-02 and 2002-03. The Committee has issued its recommendations, however final order from CBR is still awaited.

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

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

An order under section 122 of Income Tax Ordinance 2001 has been issued by Taxation Officer rectifying the amount of determined refunds carried forwarded from the past years. The Department has raised a demand of Rs. 161.759 million. In response the Subsidiary Company has filed appeal before CIT (A) and it is expected that the decision will be made in favour of the Subsidiary Company.



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

33 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Interest rate risk

(Rupees '000)

	Effective interest rates	Interest / markup bearing						Non interest / markup bearing			Total 2007	
		Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year		Sub-total
Financial assets:												
Long term investments	10.8% ~18 %	2,255,354	199,084	-	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	999,811	1,460,059	2,459,870	2,724,407
Trade debts	-	-	-	-	-	-	-	-	28,018,145	-	28,018,145	28,018,145
Loans and advances	-	-	-	-	-	-	-	-	666,251	-	666,251	666,251
Deposits	-	-	-	-	-	-	-	-	8,888	-	8,888	8,888
Other receivables	-	-	-	-	-	-	-	-	725,548	-	725,548	725,548
Interest accrued	-	-	-	-	-	-	-	-	318,444	-	318,444	318,444
Other financial assets	5.3 % ~12.15 %	18,874,050	-	-	-	-	-	18,874,050	279,909	-	279,909	19,153,959
Cash and bank balances	1.5 % ~ 9.5 %	4,677,795	-	-	-	-	-	4,677,795	185,891	-	185,891	4,863,686
		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>31,202,887</u>	<u>1,460,059</u>	<u>32,662,946</u>	<u>58,933,766</u>
Financial liabilities:												
Trade and other payables	-	-	-	-	-	-	-	-	7,349,019	-	7,349,019	7,349,019
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,349,019</u>	<u>-</u>	<u>7,349,019</u>	<u>7,349,019</u>
On balance sheet gap		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>23,853,868</u>	<u>1,460,059</u>	<u>25,313,927</u>	<u>51,584,747</u>
Un-recognized												
Commitments (other than LCs)	-	-	-	-	-	-	-	-	12,256,639	-	12,256,639	12,256,639
Claim not acknowledged as debts	-	-	-	-	-	-	-	-	232,491	-	232,491	232,491
Letters of credit	-	-	-	-	-	-	-	-	4,318,176	-	4,318,176	4,318,176
Guarantees	-	-	-	-	-	-	-	-	104,844	-	104,844	104,844
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,912,150</u>	<u>-</u>	<u>16,912,150</u>	<u>16,912,150</u>
Off balance sheet gap		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>6,941,718</u>	<u>1,460,059</u>	<u>8,401,777</u>	<u>34,672,598</u>

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

33.2 Interest rate risk

(Rupees '000)

	Effective interest rates	Interest / markup bearing						Non interest / markup bearing			Total 2006	
		Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year		Sub-total
Financial assets:												
Long term investments	11% ~ 18%	1,937,602	240,354	89,456	-	-	-	2,267,412	-	-	-	2,267,412
Long term loans and receivables	8.22%	48,884	33,968	46,587	51,329	41,845	-	222,613	975,939	1,968,356	2,944,295	3,166,908
Trade debts		-	-	-	-	-	-	-	24,500,791	-	24,500,791	24,500,791
Loans and advances		-	-	-	-	-	-	-	852,187	-	852,187	852,187
Deposits		-	-	-	-	-	-	-	8,699	-	8,699	8,699
Other receivables		-	-	-	-	-	-	-	460,571	-	460,571	460,571
Interest accrued		-	-	-	-	-	-	-	526,913	-	526,913	526,913
Other financial assets	4% ~ 11.4%	35,990,409	-	-	-	-	-	35,990,409	219,523	-	219,523	36,209,932
Cash and bank balances	0.75% ~ 9.5%	1,234,452	-	-	-	-	-	1,234,452	169,490	-	169,490	1,403,942
		<u>39,211,347</u>	<u>274,322</u>	<u>136,043</u>	<u>51,329</u>	<u>41,845</u>	<u>-</u>	<u>39,714,886</u>	<u>27,714,113</u>	<u>1,968,356</u>	<u>29,682,469</u>	<u>69,397,355</u>
Financial liabilities:												
Trade and other payables		-	-	-	-	-	-	-	4,497,037	-	4,497,037	4,497,037
		-	-	-	-	-	-	-	4,497,037	-	4,497,037	4,497,037
On balance sheet gap		<u>39,211,347</u>	<u>274,322</u>	<u>136,043</u>	<u>51,329</u>	<u>41,845</u>	<u>-</u>	<u>39,714,886</u>	<u>23,217,076</u>	<u>1,968,356</u>	<u>25,185,432</u>	<u>64,900,318</u>
Un-recognized												
Commitments (other than LCs)		-	-	-	-	-	-	-	7,027,459	-	7,027,459	7,027,459
Claim not acknowledged as debts		-	-	-	-	-	-	-	494,876	-	494,876	494,876
Letters of credit		-	-	-	-	-	-	-	6,589,035	-	6,589,035	6,589,035
Guarantees		-	-	-	-	-	-	-	106,823	-	106,823	106,823
		-	-	-	-	-	-	-	14,218,193	-	14,218,193	14,218,193
Off balance sheet gap		<u>39,211,347</u>	<u>274,322</u>	<u>136,043</u>	<u>51,329</u>	<u>41,845</u>	<u>-</u>	<u>39,714,886</u>	<u>8,998,883</u>	<u>1,968,356</u>	<u>10,967,239</u>	<u>50,682,125</u>

33.3 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 58,933,766 million (2006: Rs 69,397,355 million), financial assets which are subject to credit risk amount to Rs 57,208,240 million (2006: Rs 67,611,798 million). To manage exposure to credit risk, the Group applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Group does not expect these companies to fail to meet their obligations.

33.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. At the year end financial assets and liabilities include Rs 4,848,664 million (2006: Rs 3,970,146 million) and Rs 147.26 million (2006: Rs 230.30 million) respectively which are exposed to currency risk.

33.5 Liquidity risk

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

33.6 Fair value of financial assets and liabilities

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



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for the year ended 30 June 2007

	2007	2006
34 EARNINGS PER SHARE - BASIC AND DILUTED		
Profit for the year (Rupees '000)	45,254,786	45,803,398
Average number of shares outstanding during the year ('000)	4,300,928	4,300,928
Earnings per share - basic (Rupees)	10.52	10.65

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

	Note	2007	2006
(Rupees '000)			
35 CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	4,863,686	1,403,942
Short term highly liquid investments	23	18,874,050	35,990,409
		23,737,736	37,394,351

36 RELATED PARTIES TRANSACTIONS

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

	2007	2006
(Rupees '000)		
Associated Company		
Dividend income received	23,520	22,770
Related parties by virtue of common directorship and GoP holdings		
Sales of:		
Crude oil	9,233,717	45,672,942
Natural gas	50,334,898	53,913,369
Naphtha	3,119,878	2,855,446
Liquefied petroleum gas	121,177	260,710
Refined petroleum products	694,681	554,206
Naphtha handling and storage charges	124,458	129,038
Desalting/decanting charges paid	39,189	49,213
Purchase of high BTU value gas	2,142,015	1,262,932
Pipeline rental charges	40,212	39,360
Purchase of petroleum, oil and lubricants	1,640,366	1,173,730
Insurance premium paid	559,838	440,874
Investment made	-	200,000
Crude transportation charges paid	833,686	655,003
Purchase of stores and spare parts	72,561	17,602
Receipts against long term receivables	801,663	848,350

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

	Note	2007	2006
(Rupees '000)			
RELATED PARTIES TRANSACTIONS - Continued			
V-sat charges		1,265	2,413
Consultancy services		31,098	39,109
Receivable at the end of the year		15,735,438	23,957,294
Other related parties			
Contribution to staff benefit funds		305,749	339,685
Remuneration including benefits and perquisites of chief executive	36.1	10,412	2,883
Remuneration including benefits and perquisites of executives	36.1	643,721	288,689

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible. Sale of crude oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of natural gas to related parties is at price notified by the GoP whereas sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority (OGRA).

36.1 REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

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

	2007		2006	
	Chief Executive	Executives	Chief Executives	Executives
(Rupees '000)				
Managerial remuneration	6,915	232,002	1,660	110,112
Housing and utilities	1,437	149,765	751	64,135
Other allowances and benefits	2,027	244,959	377	95,729
Medical benefits	33	3,846	95	8,203
Contribution to pension fund	-	23,479	-	10,510
Leave encashment recovery	-	(10,330)	-	-
	<u>10,412</u>	<u>643,721</u>	<u>2,883</u>	<u>288,689</u>
Number of persons including those who worked part of the year	1	338	2	173

Executive means any employee whose basic salary exceeds Rs 500,000 (2006: Rs 500,000) per year.

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

The aggregate amount charged in these financial statements in respect of fee to 9 directors (2006: 10) was Rs 515,000 (2006: Rs 720,000).



Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

37 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

37.1 International Financial Reporting Standard (IFRS) 6: "Exploration for and Evaluation of Mineral Resources" is effective for the annual periods beginning on or after 01 January 2007. However, the Group has opted for early adoption of IFRS 6, for better presentation, which has no impact on the Group's existing policy for exploration and evaluation activities. The assets, liabilities and expenditure related to exploration and evaluation assets have been disclosed in note 15.2 to the financial statements. The adoption of IFRS 6 has no impact on the profit and loss account or retained earnings of the Group.

37.2 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 Parent's plant's control, due to purchase of total output by UPL an Independent Power Producer (IPP), appears to fall in the definition of leases. SECP has granted exemption to the IPPs with respect to the application of IFRIC-4. Management considers that being the counter party to the arrangement same exemption should also be granted to the Parent Company. The management has applied for specific exemption the decision of which is still pending. Had this interpretation been applied, following material adjustments to profit and loss account and balance sheet would have been made in the separate financial statements of the Parent Company:

	2007	2006
	(Rupees '000)	
Profit for the year	45,629,964	45,967,723
Depreciation reversed	891,537	891,537
Amortization reversed	19,622	19,902
Finance income recognized	2,843,936	2,461,840
Sales revenue reversed	(2,912,461)	(2,509,191)
Tax impact at estimated effective rate	(252,706)	(285,667)
	<u>46,219,892</u>	<u>46,546,144</u>
Unappropriated profit brought forward	54,488,409	42,572,724
Adjusted profit for the year	<u>46,219,892</u>	<u>46,546,144</u>
	<u>100,708,301</u>	<u>89,118,868</u>
Transfer to capital reserve	(219,201)	(223,031)
Dividends	(39,783,589)	(34,407,428)
Adjusted Unappropriated profit	<u>60,705,511</u>	<u>54,488,409</u>
Unappropriated profit	<u>55,169,140</u>	<u>49,541,966</u>
Increase in current liabilities	(2,427,039)	(2,174,333)
Decrease in development assets	(786,186)	(805,808)
Decrease in property, plant and equipment	(891,537)	(1,783,074)
Lease receivables recognized	<u>9,641,134</u>	<u>9,709,658</u>

Consolidated Notes to the Financial Statements

for the year ended 30 June 2007

37.3 The following standards, interpretations and amendments in approved accounting standards are effective for accounting periods beginning on or after 01 July 2007. However, management believes that these standards and IFRICs either do not have any impact on the present transactions of the Group or the Group would be able to comply with these standards, IFRICs and amendments when applicable:

- IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures;
- IAS 23 - Borrowing Costs (as revised);
- IAS 41 - Agriculture;
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations;
- IFRIC 10 - Interim Financial Reporting and Impairment;
- IFRIC 11 - Group and Treasury Share Transactions;
- IFRIC 12 - Service Concession Arrangements;
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 14 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

38 CORRESPONDING FIGURES

Previous year figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. For better presentation reclassifications made in the financial statements were as follows:

Reclassification from Component	Reclassification to Component	Amount (Rupees '000)
Stores held for capital expenditure	Property, plant and equipment	677,441
Stores, spare parts and loose tools	Exploration and evaluation assets	1,796,993
Loans and advances	Other receivables	848,350
Interest accrued	Long term investments	29,105

39 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Parent Company proposed final dividend at the rate of Rs 3.50 per share in its meeting held on 22 August 2007.

40 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 22 August 2007 by the Board of Directors of the Parent Company.

41 GENERAL

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



Chairman and Chief Executive



Director





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