

**OIL AND GAS DEVELOPMENT COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [Un-audited]**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2007**

**1 LEGAL STATUS AND OPERATIONS**

Oil and Gas Development Company Limited (OGDCL), "the Parent Company", was incorporated on October 23, 1997 under the Companies Ordinance, 1984. The Parent Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Parent Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. The Parent Company is listed on all the three stock exchanges of Pakistan.

Government of Pakistan (GoP) divested 214,091,139 shares being 4.98% of its shareholding in October 2003 through an Initial Public Offering. In December 2006, GoP further divested 408,588,000 shares being 9.5% of its shareholding through secondary offering in the form of Global Depository Shares ( 1 GDS = 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 shares to local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 21,505,000 shares being 0.50% of its shareholding to the general public in February 2007. Accordingly, GoP owns 85.02% of the shares of the Parent Company as of September 30, 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.

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.

The registered offices of both the Parent and the Subsidiary Companies, together constituting "the Group", are located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan.

**2 BASIS OF PREPARATION**

These financial statements are un-audited and are being submitted to shareholders as required under section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting".

The accounting policies adopted for the preparation of these financial statements are the same as those applied in preparation of annual financial statements of the Group for the year ended June 30, 2007.

**3 SHARE CAPITAL**

**Issued, subscribed and paid up capital**

September 30, 2007	June 30, 2007		September 30, 2007	June 30, 2007
Number			(Rupees '000)	
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash (note 3.1)	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
4,300,928,400	4,300,928,400		43,009,284	43,009,284

**3.1** 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 (June 30, 2007 : 5,000,000,000) Ordinary shares of Rs 10 each.

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	September 30, 2007	June 30, 2007
Note	(Rupees '000)	
<b>4 CAPITAL RESERVE</b>		
Bonus shares reserve	4.1 836,000	836,000
Capital reserve	4.2 2,512,082	2,438,228
	3,348,082	3,274,228

- 4.1** This represents bonus shares issued by the Subsidiary Company.
- 4.2** The Group has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation, vehicle repair and petroleum products in transit. Refer note 10.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.

	September 30, 2007	June 30, 2007
	(Rupees '000)	
<b>5 TRADE AND OTHER PAYABLES</b>		
Creditors	135,229	290,116
Accrued liabilities	2,938,667	3,419,242
Royalty	3,184,203	2,456,542
Excise duty	110,929	105,700
General sales tax	1,409,424	1,371,030
Payable to joint venture partners	1,514,567	1,028,288
Retention money	230,349	212,766
Trade deposits	96,581	94,581
Un-paid dividend	15,053,819	2,102,291
Un-claimed dividend	74,224	65,790
Workers' profit participation fund	623,303	-
Advances from customers	132,166	35,756
Other payables	71,240	76,967
	25,574,701	11,259,069

**6 CONTINGENCIES AND COMMITMENTS**

- 6.1** Claims against the Parent Company as on September 30, 2007, not acknowledged as debts amounted to Rs 232.725 million (June 30, 2007: Rs 232.491 million).
- 6.2** Commitments outstanding against the Parent Company as on September 30, 2007 amounted to Rs 10,508.598 million (June 30, 2007: Rs 12,256.639 million). These included amounts aggregating to Rs 2,434.391 million (June 30, 2007: Rs 2,672.684 million) representing the Parent Company's share in the minimum work commitments related to operated/non-operated concessions.
- 6.3** Letters of credit issued by various banks on behalf of the Parent Company in ordinary course of the business, outstanding at the period end amounted to Rs 6,385.806 million (June 30, 2007: Rs 4,318.176 million).
- 6.4** Certain banks have issued guarantees on behalf of the Parent Company in ordinary course of business aggregating to Rs 104.844 million (June 30, 2007: Rs 104.844 million).
- 6.5** Status of contingencies relating to pending tax assessments/re-assessments is the same as disclosed in the audited financial statements for the year ended June 30, 2007.

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		<b>Quarter ended September 30,</b>	
		<b>2007</b>	<b>2006</b>
	<b>Note</b>	<b>(Rupees '000)</b>	
<b>7 PROPERTY, PLANT AND EQUIPMENT</b>			
Opening book value		20,005,480	19,561,263
Additions during the quarter	7.1	592,487	991,492
Book value of disposals	7.2	(2,147)	(1)
Adjustment (net)		(89,655)	43,613
Depreciation charge for the quarter		(834,959)	(701,100)
Closing book value		19,671,206	19,895,267
Capital works in progress		1,931,427	1,523,687
		<u>21,602,633</u>	<u>21,418,954</u>
<b>7.1 Additions during the quarter</b>			
Freehold land		5	286
Buildings, offices and roads on freehold land		30,525	2,281
Buildings, offices and roads on leasehold land		3,761	-
Plant and machinery		457,079	454,658
Rigs		31,887	8,642
Pipelines		18,908	305,245
Vehicles		39,994	35,470
Office and domestic equipment		3,545	4,808
Office and technical data computers		4,518	18,090
Furniture and fixture		2,265	3,536
Stores held for capital expenditure (net)		(89,655)	43,613
Decommissioning cost		-	158,476
		<u>502,832</u>	<u>1,035,105</u>
<b>7.2 Book value of disposals during the quarter</b>			
Plant and machinery		986	-
Vehicles		1,161	1
		<u>2,147</u>	<u>1</u>
<b>8 DEVELOPMENT AND PRODUCTION ASSETS - INTANGIBLE</b>			
Opening book value		27,211,898	21,427,654
Additions during the quarter		830,572	741,775
Amortization charge for the quarter		(1,003,598)	(800,746)
Closing book value		27,038,872	21,368,683
Wells in progress		2,899,003	2,031,465
		<u>29,937,875</u>	<u>23,400,148</u>
<b>9 EXPLORATION AND EVALUATION ASSETS</b>			
Balance at beginning of the quarter		1,875,370	2,551,149
Additions in exploration and evaluation assets during the quarter		2,475,758	1,984,781
		4,351,128	4,535,930
Cost of dry and abandoned wells during the quarter		(1,202,893)	(857,138)
Cost of wells transferred to development and production assets		(165,053)	(509,533)
		<u>(1,367,946)</u>	<u>(1,366,671)</u>
		2,983,182	3,169,259
Stores held for exploration and evaluation activities		4,198,476	3,361,819
Balance at end of the quarter		<u>7,181,658</u>	<u>6,531,078</u>

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	September 30, 2007	June 30, 2007
	(Rupees '000)	
Note		
<b>10 LONG TERM INVESTMENTS</b>		
Investment in related party	10.1 156,218	155,829
Investments held to maturity	10.2 2,618,036	2,454,438
	<u>2,774,254</u>	<u>2,610,267</u>
<b>10.1 Investment in related party</b>		
<b>Associated company - quoted</b>		
Mari Gas Company Limited, Pakistan	155,829	135,023
Percentage holding 20%		
7,350,000 fully paid ordinary shares of Rs 10 each		
Market value Rs 1,892.625 million (June 30, 2007: Rs 1,286 million)		
Share of profit for the period	7,871	44,326
Dividend received	(7,482)	(23,520)
	<u>389</u>	<u>20,806</u>
	<u>156,218</u>	<u>155,829</u>
<b>10.2 Investments held to maturity</b>		
Defence Saving Certificates (DSCs)	10.2.1 369,333	389,097
Term Deposit Receipts (TDRs)	10.2.2 2,248,703	2,065,341
	<u>2,618,036</u>	<u>2,454,438</u>

**10.2.1** Face value of investments in DSCs is Rs 78.117 million (June 30, 2007: Rs 84.908 million). These carry effective interest rates ranging between 16% to 18% (June 30, 2007: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2007 to 2009.

**10.2.2** Face value of investments in TDRs is Rs 2,215 million (June 30, 2007: Rs 2,015 million). These have maturity period upto six months and carry effective interest rates of 10.25% to 11.00% (June 30, 2007: 10.80% to 11.60%) and are due to mature in 2007.

**10.2.3** Investments amounting to Rs 2,573.119 million (June 30, 2007: Rs 2,255.354 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments upto the extent of capital reserve.

**10.2.4** These investments are identified against capital reserve as explained in note 4 to the financial statements.

	September 30, 2007	June 30, 2007
	(Rupees '000)	
<b>11 TRADE DEBTS</b>		
Un-secured, considered good	29,938,437	28,018,145
Un-secured, considered doubtful	177,737	177,737
	<u>30,116,174</u>	<u>28,195,882</u>
Provision for doubtful debts	(177,737)	(177,737)
	<u>29,938,437</u>	<u>28,018,145</u>

**11.1** Trade debts include an amount of Rs 4,369 million (June 30, 2007: Rs 4,354 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.

**11.2** Trade debts also include an amount of Rs 6,867 million (June 30, 2007: Rs 5,379 million) which have 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.

**11.3** Also included in trade debts is an amount of Rs 2,684 million (June 30, 2007: Rs 3,288 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.

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**Quarter ended September 30,**  
**2007**                      **2006**  
**(Rupees '000)**

**12 SALES- net**

**Gross sales**

Crude oil	15,861,640	14,000,070
Gas	14,188,485	13,545,750
Kerosene oil	115,702	115,794
High speed diesel oil	101,976	108,327
Solvent oil	7,782	23,300
Naphtha	814,903	789,930
Liquefied petroleum gas	1,312,087	808,047
Sulphur	67,222	14,788
Other operating revenue	9,991	13,171
	<u>32,479,788</u>	<u>29,419,177</u>

**Government levies**

Excise duty	(378,488)	(335,690)
Development surcharge	(19,972)	(15,160)
General sales tax	(4,154,467)	(3,746,690)
	<u>(4,552,927)</u>	<u>(4,097,540)</u>
	<u>27,926,861</u>	<u>25,321,637</u>

**13 OPERATING EXPENSES**

Salaries, wages and benefits	675,434	612,259
Traveling and transportation	86,424	74,131
Repairs and maintenance	127,103	168,107
Stores and supplies consumed	213,459	174,246
Rent, fee and taxes	84,711	41,860
Insurance	62,494	58,411
Communication	7,378	7,782
Utilities	8,133	6,165
Land and crops compensation	42,741	13,137
Contract services	204,388	92,338
Joint venture expenses	405,256	463,773
Desalting, decanting and naphtha storage charges	55,562	49,611
Welfare of locals at fields	54,362	38,383
Workover charges	17,548	58,634
Depreciation	712,564	606,966
Amortization of development and production assets	1,003,598	800,746
Transfer from general and administration expenses	247,688	171,031
Miscellaneous	538	489
	<u>4,009,381</u>	<u>3,438,069</u>
Stock of crude oil and other products:		
Balance at beginning of the quarter	93,788	65,608
Balance at end of the quarter	(160,746)	(61,021)
	<u>3,942,423</u>	<u>3,442,656</u>

**14 EARNINGS PER SHARE - BASIC AND DILUTED**

Profit for the quarter (Rupees '000)	12,399,484	12,036,692
Average number of shares outstanding during the quarter ('000)	4,300,928	4,300,928
Earnings per share - basic (Rupees)	<u>2.88</u>	<u>2.80</u>

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

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**15 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 quarter end are as follows:

	<b>Quarter ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Rupees '000)</b>	
<b>Associated company- Mari Gas Company Limited</b>		
Dividend income received	7,482	7,350
<b>Related parties by virtue of common directorship and GoP holdings</b>		
Sales of:		
Crude oil	7,362,731	13,981,451
Natural gas	12,716,019	12,264,166
Naphtha	810,592	789,930
Liquefied petroleum gas	788	72,377
Refined petroleum products	162,225	142,778
Naphtha handling and storage charges	28,108	29,846
Desalting/decanting charges paid	-	10,290
Crude oil transmission charges paid	-	207
Purchase of high BTU value gas	427,328	386,244
Pipeline rental charges	9,642	10,053
Purchase of petroleum, oil and lubricants	405,990	305,662
Insurance premium paid	115,661	151,635
Crude transportation charges paid	308,863	180,671
Purchase of stores and spares	4,533	1,135
Receipts against long term receivables	377,488	330,800
Consultancy services	11,238	2,565
Receivable at the end of the quarter	20,295,687	26,232,041
<b>Other related parties</b>		
Contribution to staff benefit funds	90,074	106,631
Remuneration including benefits and perquisites of chief executive	4,098	1,815
Remuneration including benefits and perquisites of executives	423,955	89,785

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).

**16 CORRESPONDING FIGURES**

Previous quarter figures have been rearranged and/or reclassified, wherever necessary, for the purpose of better presentation and comparison in the financial statements.

**17 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE**

The Board of Directors of the Parent Company approved interim dividend at the rate of Rs \_\_\_\_\_ per share in its meeting held on 25 October 2007.

**18 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on 25 October 2007 by the Board of Directors of the Parent Company.

**19 GENERAL**

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

**Chairman and Chief Executive**

**Director**