

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION [UNAUDITED]
FOR NINE MONTHS ENDED 31 MARCH 2008

1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Parent Company", was incorporated on 23 October 1997 under the Companies Ordinance, 1984. The 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 Ordinary shares being 9.50% 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 Ordinary shares to local institutional investors. GDSs are listed on the London Stock Exchange. In addition, GoP also divested 21,505,000 Ordinary shares being 0.50% of its shareholding to the general public in February 2007. Currently, GoP owns 85.02% of the Ordinary shares of the Parent Company.

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

This condensed consolidated interim financial information has been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting" as applicable in Pakistan. This condensed consolidated interim financial information is unaudited and are being submitted to shareholders as required by Section 245 of the Companies Ordinance, 1984.

This condensed consolidated interim financial information should be read in conjunction with annual audited consolidated financial statements for the year ended 30 June 2007. Comparative balance sheet is extracted from annual audited consolidated financial statements for the year ended 30 June 2007 whereas comparative consolidated profit and loss account, comparative consolidated statement of changes in equity and comparative consolidated cash flow statement are stated from unaudited condensed consolidated interim financial information for the nine months ended on 31 March 2007.

Accounting policies, related judgments, estimates and assumptions adopted for preparation of this condensed consolidated interim financial information are the same as those applied in preparation of the annual audited consolidated financial statements for the year ended 30 June 2007.

	31 March 2008	30 June 2007
Note	(Rupees '000)	
3 TRADE AND OTHER PAYABLES		
Creditors	124,781	290,116
Accrued liabilities	2,398,366	3,419,242
Royalty	4,560,505	2,456,542
Excise duty	116,708	105,700
General sales tax	779,147	1,371,030
Payable to joint venture partners	543,329	1,028,288
Retention money	253,499	212,766
Trade deposits	99,262	94,581
Un-paid dividend	3.1 8,602,784	2,102,291
Un-claimed dividend	94,487	65,790
Workers' profit participation fund	2,991,951	-
Advances from customers	138,839	35,756
Other payables	56,464	76,967
	20,760,122	11,259,069

3.1 This represents second interim dividend for the year 2007-08 declared by the Board of Directors of the Parent Company on 27 February 2008. The due date of payment is 09 June 2008.

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4 CONTINGENCIES AND COMMITMENTS

- 4.1** Claims against the Parent Company as on 31 March 2008, not acknowledged as debts amounted to Rs 229.420 million (30 June 2007 : Rs 232.491 million) since in the opinion of the management, there is a fairly reasonable chance that these will be decided in favour of the Parent Company.
- 4.2** At present Qadirpur Gas Price is being notified by Oil & Gas Regulatory Authority (OGRA) on the basis of a provisional discount table for High Sulphur Fuel Oil (HSFO) price upto the maximum limit of US\$ 200 per metric ton notified by Ministry of Petroleum and Natural Resources, Government of Pakistan (GoP). In terms of article 4.1(b) of Qadirpur Gas Pricing Agreement, OGDCL has taken up the matter with GoP for notification of step discounts to be used in the calculation of gas price at HSFO prices exceeding US\$ 200 per metric ton. To date no agreement has been reached on said step discounts between OGDCL and GoP. After settlement of discount issue which can not be quantified at this stage, gas prices will be adjusted with retrospective effect i.e., July 2005. Since the gas prices during the year 2005-06 were notified on the basis of existing table, therefore, there may be some adjustment pertaining to that year whenever the discount levels are finalized.
- 4.3** Capital commitments outstanding against the Parent Company as on 31 March 2008, amounted to Rs 16,077.836 million (30 June 2007 : Rs 12,256.639 million). These include amounts aggregating Rs 2,682.536 million (30 June 2007 : Rs 2,672.684 million) representing the Parent Company's share in the minimum work commitments related to operated/non-operated concessions.
- 4.4** 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 7,137.995 million (30 June 2007 : Rs 4,318.176 million).
- 4.5** Certain banks have issued guarantees on behalf of the Parent Company in ordinary course of business aggregating to Rs 105.470 million (30 June 2007 : Rs 104.844 million).
- 4.6 Contingencies relating to tax**

Parent Company

Assessment proceedings for assessment years 1996-97 to 2002-03, tax years 2003 and 2004 were completed before the Commissioner of Income Tax-Appeals (CIT(A)) and the adjudicator appointed by both the Parent Company as well as the Federal Board of Revenue (FBR) on the issues of decommissioning cost and depletion allowance. The Parent Company filed appeal before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1996-97 to 2002-03 and tax year 2003 and 2004, hearing proceedings are completed while the decision is awaited.

On the basis of judgment of the adjudicator and the revised assessment net amount of Rs 4,686.026 million is refundable as against the net 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 this condensed consolidated interim financial information has been made in accordance with the decision of the adjudicator.

The Parent Company filed an application to FBR 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 FBR where it has decided not to intervene. Accordingly, the issues involved will be settled at appellate forums.

The Additional Commissioner while invoking the provisions of section 122(5A) on the issue of depletion allowance created a tax demand of Rs 700.117 million, Rs 957.651 million and Rs 941.968 million for the tax year 2005, 2006 & 2007 respectively which has been duly paid by the Parent Company while appeal against the said orders has also been filed before the CIT(A).

There is fairly reasonable chance that the appeals will be decided in favor of the Parent Company in line with the adjudication order, however, the Parent Company is contingently liable to an amount of Rs 5,620.500 million as at 31 March 2008.

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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. The Subsidiary Company as well as department filed appeal before ITAT against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

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. An appeal before the ITAT has been filed against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

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

Pending the outcome of these appeals and ADRC order no provision has been made in this condensed consolidated interim financial information 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 ITAT relating to assessment year 1995-96. By virtue of the said appellate order , the Subsidiary Company's taxability has been confirmed at the rate applicable to a private limited company resulting in a net tax exposure of Rs 178.20 million. The legal counsel of the Subsidiary Company is of the view that keeping in view assessed history of the Subsidiary Company the case is likely to be decided in Subsidiary Company's favour.

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	Note	Nine months ended 31 March	
		2008	2007
		(Rupees '000)	
5 PROPERTY, PLANT AND EQUIPMENT			
Carrying amount at beginning of the period		20,005,480	19,561,263
Additions during the period	5.1	2,588,463	2,603,690
Book value of disposals	5.2	(2,664)	(2,158)
Depreciation charge for the period		(2,493,366)	(2,538,957)
Closing book value		20,097,913	19,623,838
Capital works in progress		2,508,562	1,564,203
Carrying amount at end of the period		22,606,475	21,188,041
5.1 Additions during the period			
Freehold land		631	6,644
Buildings, offices and roads on freehold land		36,923	19,742
Buildings, offices and roads on leasehold land		3,761	-
Plant and machinery		1,627,695	1,325,947
Rigs		102,255	123,319
Pipelines		358,346	330,035
Vehicles		204,335	381,190
Office and domestic equipment		38,657	28,920
Office and technical data computers		16,666	75,978
Furniture and fixture		6,287	5,709
Stores held for capital expenditure (net)		192,907	147,729
Decommissioning cost		-	158,477
		2,588,463	2,603,690
5.2 Book value of disposals during the period			
Plant and machinery		-	267
Rigs		-	26
Office and domestic equipment		-	149
Office and technical data computers		-	124
Vehicles		2,664	1,592
		2,664	2,158
6 DEVELOPMENT AND PRODUCTION ASSETS - INTANGIBLE			
Opening book value		27,211,897	21,427,653
Additions during the period		3,695,683	4,409,125
Amortization charge for the period		(3,051,194)	(2,833,298)
Closing book value		27,856,386	23,003,480
Wells in progress		5,155,173	2,803,479
		33,011,559	25,806,959
7 EXPLORATION AND EVALUATION ASSETS			
Balance at beginning of the period		1,875,370	2,551,149
Additions in exploration and evaluation assets during the period		6,535,954	5,561,712
		8,411,324	8,112,861
Cost of dry and abandoned wells during the period		(3,800,286)	(2,613,215)
Cost of wells transferred to development and production assets during the period		(1,167,008)	(1,944,883)
		(4,967,294)	(4,558,098)
		3,444,030	3,554,763
Stores held for exploration and evaluation activities (net)		3,237,247	4,846,798
Balance at end of the period		6,681,277	8,401,561

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	(Rupees '000)	
8 TRADE DEBTS		
Un-secured, considered good	34,015,391	28,018,145
Un-secured, considered doubtful	156,854	177,737
	<u>34,172,245</u>	<u>28,195,882</u>
Provision for doubtful debts	(156,854)	(177,737)
	<u>34,015,391</u>	<u>28,018,145</u>

8.1 Trade debts include an amount of Rs 4,406 million (30 June 2007: Rs 4,354 million) withheld by Uch Power (Private) Limited 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.

8.2 Trade debts also include an amount of Rs 5,657 million (30 June 2007: Rs 5,379 million) which has been withheld by the refineries under the previous directive of Ministry of Petroleum and Natural Resources and represents revenue on crude oil in excess of USD 50 per barrel. On 4 December 2007, Ministry of Petroleum and Natural Resources issued another directive whereby discount on crude oil and condensate in excess of USD 50 per barrel was settled. According to the said directive, in case the net prices exceed the present ceiling limits mentioned in the respective agreements, the excess will be equally shared between the Government and Exploration and Production (E&P) Companies both for crude oil and condensate. The effect of this has been incorporated in this condensed consolidated interim financial information. Further, the matter has been taken up with oil refineries for release of withheld amounts.

8.3 Also included in trade debts is an amount of Rs 3,122 million (30 June 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.

	Note	31 March 2008	30 June 2007
		(Rupees '000)	
9 OTHER FINANCIAL ASSETS			
Investments:			
At fair value through profit or loss - NIT units		285,812	279,909
Available for sale	9.1	19,995,310	18,874,050
		<u>20,281,122</u>	<u>19,153,959</u>

9.1 These represent investments in TDRs maturing in the short term and carry interest rate of 5.60% to 10.25% (30 June 2007: 5.20% to 12.15%) per annum. Included in these investments are foreign currency TDRs amounting to USD 71 million (30 June 2007: USD 65 million).

	Three months ended 31 March		Nine months ended 31 March	
	2008	2007	2008	2007
	(Rupees '000)			
10 SALES - net				
Gross sales				
Crude oil	16,619,777	12,261,149	48,424,459	37,821,522
Gas	15,825,556	15,181,451	44,021,250	43,319,597
Gasoline	-	-	4,740	-
Kerosene oil	64,571	125,538	283,001	402,437
High speed diesel oil	27,237	90,225	227,779	338,800
Solvent oil	1,753	4,486	16,466	38,758
Naphtha	580,514	739,830	2,206,219	2,289,775
Liquefied petroleum gas	1,388,832	1,380,642	4,281,870	3,272,710
Sulphur	209,661	32,654	516,778	59,783
Other operating revenue	18,413	11,983	50,360	41,834
	<u>34,736,314</u>	<u>29,827,958</u>	<u>100,032,922</u>	<u>87,585,216</u>
Government levies				
Excise duty	(396,800)	(381,765)	(1,141,815)	(1,082,928)
Development surcharge	(8,757)	(10,921)	(49,509)	(38,724)
General sales tax	(2,275,524)	(3,799,317)	(9,964,075)	(11,151,225)
	<u>(2,681,081)</u>	<u>(4,192,003)</u>	<u>(11,155,399)</u>	<u>(12,272,877)</u>
	<u>32,055,233</u>	<u>25,635,955</u>	<u>88,877,523</u>	<u>75,312,339</u>

11 EARNINGS PER SHARE - BASIC AND DILUTED

Profit for the period (Rupees '000)	12,212,199	11,571,324	36,305,232	34,496,684
Average number of shares outstanding during the period ('000)	4,300,928	4,300,928	4,300,928	4,300,928
Earnings per share - basic (Rupees)	<u>2.84</u>	<u>2.69</u>	<u>8.44</u>	<u>8.02</u>
There is no dilutive effect on the earnings per share of the Group.				

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12 RELATED PARTIES TRANSACTIONS

Related parties comprise wholly owned subsidiary, associated company, Government of Pakistan, profit oriented state-controlled entities, major shareholders, directors, companies with common directorship, key management personnel and employees pension trust. Transactions with Government of Pakistan other than dividend payments, are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to the nature of Group's business. Transactions of the Group with other related parties and balance outstanding at the period end are as

	Nine months ended 31 March	
	2008	2007
	(Rupees '000)	
Associated company - Mari Gas Company Limited		
Dividend income received	23,931	23,520
Related parties by virtue of common directorship and GoP holdings		
Sales of:		
Crude oil	9,197,208	38,134,714
Natural gas	38,696,970	38,284,788
Naphtha	-	2,289,775
Liquefied petroleum gas	9,858	253,086
Refined petroleum products	339,472	481,438
Naphtha handling and storage charges	-	97,923
Desalting/decanting charges paid	36,910	23,580
Crude oil transmission charges paid	-	4,301
Purchase of high BTU value gas	1,705,389	1,570,793
Pipeline rental charges	1,777	30,159
Purchase of petroleum, oil and lubricants	1,510,761	1,156,560
Insurance premium paid	349,569	340,708
Crude transportation charges paid	856,289	566,278
Purchase of stores and spares	13,577	59,179
Dividend received from NIT units	28,150	26,334
Receipts against long term receivables	801,663	801,663
Consultancy services	39,332	25,302
Dividend paid to Government of Pakistan	20,011,294	15,325,587
Receivable at 31 March	15,734,133	25,485,655
Other related parties		
Contribution to staff benefit funds	486,653	339,276
Remuneration including benefits and perquisites of chief executive	9,354	7,603
Remuneration including benefits and perquisites of executives	1,125,500	480,213

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13 FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies are consistent with that disclosed in the annual audited consolidated financial statements for the year ended 30 June 2007.

14 CORRESPONDING FIGURES

For better presentation and consistency with annual audited consolidated financial statements for the year ended 30 June 2007, following figures have been reclassified in the condensed consolidated interim financial information:

Reclassification from Component	Reclassification to Component	Amount (Rupees '000)
Stores held for capital expenditure	Property, plant and equipment	825,169
Stores, spare parts and loose tools	Exploration and evaluation assets	4,846,798

15 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

15.1 The Board of Directors of the Parent Company approved interim dividend at the rate of Rs _____ per share in its meeting held on 28 April 2008.

15.2 This condensed consolidated interim financial information was authorized for issue by the Board of Directors of the Parent Company in its meeting held on 28 April 2008.

16 GENERAL

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

Chairman and Chief Executive

Director