

**OIL AND GAS DEVELOPMENT COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED 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.

**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.

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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.

**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's 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.

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**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 recognised 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.

The Group makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried as of 30 June 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 recognised over the average expected remaining working lives of the employees.

**4.2 TAXATION**

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

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**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.

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 de-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.

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**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, includes 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 amortised 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.

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 recognised is the estimated cost of decommissioning, discounted to its net present value and is reassessed every three years. The latest estimates were made as at 30 June 2006 and the expected outflow of economic resources to settle this obligation is up to next 25 years. Decommissioning cost, as appropriate, relating to producing/shut in fields and production facilities is capitalized to the cost of development and production assets and property, plant and equipment as the case may be. The recognised 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.

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**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 derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

**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.

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**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.

**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 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 OPERATIONS**

The Group has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the 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.

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**4.12 FOREIGN CURRENCIES**

Pakistan rupees 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 recognised 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.

**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 derecognized when the Group ceases to be a party to the contractual provisions of the instrument.

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

All financial assets and liabilities are initially measured at 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 includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost, except for foreign currency deposits which are carried at fair value.

**4.19 DIVIDEND**

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

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**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.

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**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.

**Authorised share capital**

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

	Note	2007	2006
		(Rupees '000)	
<b>6 CAPITAL RESERVE</b>			
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.

	2007	2006
	(Rupees '000)	
<b>7 DEFERRED TAXATION</b>		
The balance of deferred tax is in respect of following temporary differences:		
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>

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.

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	Note	2007 (Rupees '000)	2006
<b>8 DEFERRED EMPLOYEE BENEFITS</b>			
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>
<b>8.1 Post retirement medical benefits</b>			
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:			
		<b>1% increase</b>	<b>1% decrease</b>
Present value of medical obligation		714,303	523,411
Current service cost and interest cost		102,094	72,526

	2007	2006
	(Rupees '000)	
<b>8.2 Accumulating compensated absences</b>		
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.

	Note	2007	2006
		(Rupees '000)	
<b>9 PROVISION FOR DECOMMISSIONING COST</b>			
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%

## 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>

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**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)
Unrecognized 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 comprises of:

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

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	2004	2003
	(Rupees '000)				
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)	<u>140,804</u>	<u>(718,136)</u>	<u>167</u>	<u>(1,098,007)</u>	<u>559,980</u>
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	2006
	Per annum	
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	2006
	(Rupees '000)	
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	<u>14,616,005</u>	<u>19,073,941</u>
(Advance tax)/tax payable at end of the year	<u>(5,700,810)</u>	<u>3,824,189</u>

## 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), please also refer note 24.1 to the financial statements.
- 12.5** For contingencies relating to tax matters, refer note 32.2 to the financial statements.

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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
<b>Cost</b>																
Balance as at 01 July 2005	139,019	363,026	1,696,160	750,432	35,024,906	736,143	4,294,353	375,076	421,104	51,906	19,855	2,138,704	631,168	1,179,290	802,041	48,623,183
Additions	8,947	10,672	129,362	35,486	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	-	-	-	-	(37,429)	(5,270)	-	(2,305)	(1)	-	-	(75,699)	(181,854)	(682,586)	(184,215)	(1,169,359)
Adjustments	-	-	(1,888)	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	114,713	31,004	1,797,008	152,361	434,448	44,590	83,976	5,691	-	706,502	176,606	752,871	389,578	4,699,294
Disposals/ transfers	-	-	-	-	(26,026)	(5,195)	-	(4,002)	(13,264)	-	-	(71,579)	-	(37,233)	(62,235)	(219,534)
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	488,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
<b>Depreciation</b>																
Balance as at 01 July 2005	-	115,863	361,581	288,885	20,698,917	572,968	2,729,578	299,385	384,201	15,891	17,869	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	-	119,083	41,161	-	-	2,843,119
On disposals/ transfers	-	-	-	-	(35,260)	(5,193)	-	(2,224)	-	-	-	(74,871)	-	-	-	(117,548)
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	17,869	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	17,869	1,906,346	120,133	-	-	30,151,815
Charge for the year	-	10,157	94,078	94,760	1,979,692	49,404	739,592	30,027	42,724	6,909	-	182,040	88,842	-	139,954	3,458,179
On disposals/ transfers	-	-	-	-	(25,752)	(5,153)	-	(3,853)	(13,140)	-	-	(69,665)	-	-	-	(117,563)
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	17,869	2,018,721	208,975	-	139,954	33,492,431
<b>Impairment loss</b>																
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
<b>Carrying amount - 2007</b>	155,091	240,339	1,387,386	373,202	10,437,726	380,845	4,549,345	144,548	108,930	29,526	1,986	994,432	438,135	1,806,483	864,830	21,810,882
<b>Rates of depreciation (%)</b>	-	1~3.3	2.5~8	2.5~8	4~20	10	10	15	30	15	10	20	1~10	-	2.5	

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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)	
<b>13.2 The depreciation charge has been allocated to:</b>			
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
		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
	1,806,483	1,090,845

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

	Cost	Book value (Rupees )	Sale proceeds
Vehicles sold to following retiring employees as per Group's policy:			
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
<b>2007</b>	120,066,579	2,503,822	35,462,245
<b>2006</b>	120,703,235	3,155,259	29,436,905

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**14 DEVELOPMENT AND PRODUCTION ASSETS- Intangible**

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				
<b>(Rupees '000)</b>								
<b>Cost</b>								
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
<b>Amortization</b>								
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
<b>Impairment loss</b>								
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
<b>Carrying amount - 2007</b>	<b>8,657,656</b>	<b>11,226,824</b>	<b>1,307,044</b>	<b>4,359,067</b>	<b>2,099,673</b>	<b>27,650,264</b>	<b>1,661,306</b>	<b>29,311,570</b>

**14.1 Wells in progress**

	<b>2007</b>	<b>2006</b>
	<b>(Rupees '000)</b>	
Wholly owned	673,135	197,161
Joint ventures	1,426,538	1,027,022
	<u>2,099,673</u>	<u>1,224,183</u>

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	Note	2007 (Rupees '000)	2006 (Rupees '000)
<b>15 EXPLORATION AND EVALUATION ASSETS</b>			
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
<b>15.1 Stores held for exploration and evaluation activities</b>			
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
<b>15.2</b> The following disclosures detail the liabilities, other assets and expenditure incurred on exploration for and evaluation of mineral resources.			
	Note	2007 (Rupees '000)	2006 (Rupees '000)
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
<b>16 LONG TERM INVESTMENTS</b>			
Investment 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
<b>16.1 Associated Company - quoted</b>			
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

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	Note	2007 (Rupees '000)	2006
<b>16.2 Investments held to maturity</b>			
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.

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

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

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**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
<b>17.2 Long term receivables - unsecured</b>			
Considered good:		1,487,089	2,350,325
Impairment loss- net		<u>(70,905)</u>	<u>(266,995)</u>
		1,416,184	2,083,330
Current portion shown under other receivables	22	<u>(848,350)</u>	<u>(848,350)</u>
		<u>567,834</u>	<u>1,234,980</u>

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 (Rupees '000)	2006
<b>18 STORES, SPARE PARTS AND LOOSE TOOLS</b>		
Stores, spare parts and loose tools	12,382,873	10,170,653
Stores and spare parts in transit	<u>2,093,208</u>	<u>2,117,998</u>
	14,476,081	12,288,651
Provision for slow moving and obsolete stores	<u>(871,030)</u>	<u>(871,030)</u>
	<u>13,605,051</u>	<u>11,417,621</u>

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	2007	2006
	(Rupees '000)	
<b>19 TRADE DEBTS</b>		
Un-secured, considered good	28,018,145	24,500,791
Un-secured, considered doubtful	<u>177,737</u>	<u>177,737</u>
	28,195,882	24,678,528
Provision for doubtful debts	<u>(177,737)</u>	<u>(177,737)</u>
	<u><u>28,018,145</u></u>	<u><u>24,500,791</u></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.

**19.2** Trade debts also include an amount of Rs 5,379 million (2006: Rs 1,768 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.

**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	2006
		(Rupees '000)	
<b>20 LOANS AND ADVANCES</b>			
Advances considered good:			
Suppliers and contractors		<u>686,002</u>	<u>317,465</u>
Joint venture partners		<u>637,527</u>	<u>799,664</u>
Others		<u>26,692</u>	<u>22,809</u>
		1,350,221	1,139,938
Current portion of long term loans- secured	17.1	<u>190,468</u>	<u>163,853</u>
		1,540,689	1,303,791
Advances considered doubtful		<u>263,622</u>	<u>269,052</u>
		1,804,311	1,572,843
Provision for doubtful advances		<u>(263,622)</u>	<u>(269,052)</u>
		<u><u>1,540,689</u></u>	<u><u>1,303,791</u></u>

**21 DEPOSITS AND SHORT TERM PREPAYMENTS**

Security deposits	8,888	8,699
Short term prepayments	<u>284,242</u>	<u>296,937</u>
	<u><u>293,130</u></u>	<u><u>305,636</u></u>

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	Note	2007 (Rupees '000)	2006
<b>22 OTHER RECEIVABLES</b>			
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
		<u>1,335,255</u>	<u>1,087,579</u>
<b>22.1 Workers' profit participation fund</b>			
Receivable at beginning of the year		32,033	121,166
Paid to the fund during the year		<u>3,515,034</u>	<u>3,390,949</u>
		3,547,067	3,512,115
Received during the year		(30,983)	-
Charge for the year		<u>(3,213,617)</u>	<u>(3,480,082)</u>
Receivable at end of the year		<u>302,467</u>	<u>32,033</u>
<b>23 OTHER FINANCIAL ASSETS</b>			
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
<b>24 CASH AND BANK BALANCES</b>			
Cash at bank:			
Deposit accounts	24.1	4,677,795	1,234,452
Current accounts		156,000	137,913
		4,833,795	1,372,365
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.

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	Note	2007 (Rupees '000)	2006
<b>25 SALES- net</b>			
<b>Gross sales</b>			
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
<b>Government levies</b>			
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)
		<u>100,733,011</u>	<u>97,309,036</u>
<b>25.1 Other operating revenue</b>			
Gas processing		29,925	-
Seismic data		-	2,393
Drilling services		-	-
Mud engineering services		33,656	10,920
		<u>63,581</u>	<u>13,313</u>

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	Note	2007 (Rupees '000)	2006
<b>26 OPERATING EXPENSES</b>			
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
		<u>19,195,571</u>	<u>15,849,054</u>
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)
		<u>19,167,391</u>	<u>15,815,850</u>

**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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	2007	2006
Note	(Rupees '000)	
<b>27 OTHER INCOME</b>		
<b>Income from financial assets</b>		
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
<b>Income from non financial assets</b>		
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
<b>28 EXPLORATION AND PROSPECTING EXPENDITURE</b>		
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

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	Note	2007 (Rupees '000)	2006
<b>29 GENERAL AND ADMINISTRATION EXPENSES</b>			
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
		<u>2,660,912</u>	<u>2,381,255</u>
Allocation of expenses to:			
Operations	26	<u>(820,737)</u>	<u>(801,353)</u>
Technical services		<u>(550,528)</u>	<u>(502,743)</u>
		<u>(1,371,265)</u>	<u>(1,304,096)</u>
		<u>1,289,647</u>	<u>1,077,159</u>

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

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	2007	2006
	(Rupees '000)	
<b>29.2 Auditors' remuneration</b>		
<b>M/s KPMG Taseer Hadi &amp; Co., Chartered Accountants</b>		
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
<b>M/s M. Yousuf Adil Saleem &amp; Co., Chartered Accountants</b>		
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
	<u>9,459</u>	<u>6,632</u>

**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	
	<u>375,000</u>	<u>-</u>

**OIL AND GAS DEVELOPMENT COMPANY LIMITED**  
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	2007	2006
Note	(Rupees '000)	
<b>31 FINANCE COSTS</b>		
Unwinding of discount on provision for decommissioning cost	526,790	-
Bank charges	5,880	9,981
	<u>532,670</u>	<u>9,981</u>
<b>32 TAXATION</b>		
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>
<b>32.1 Reconciliation of tax charge for the year :</b>		
Accounting profit	<u>60,754,509</u>	<u>65,757,228</u>
Tax rate	<u>52.68%</u>	<u>53.20%</u>
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.

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**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 has 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.

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**33 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

(Rupees '000)

**33.1 Interest rate risk**

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 years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub- total	Maturity upto one year	Maturity after one year	Sub- total		
<b>Financial assets:</b>												
Long term investments	10.8% -18 %	2,255,354	199,084	-	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	999,811	1,460,059	2,459,870	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>
<b>Financial liabilities:</b>												
Trade and other payables		-	-	-	-	-	-	-	7,349,019	-	7,349,019	7,349,019
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,349,019</u>	<u>-</u>	<u>7,349,019</u>	<u>7,349,019</u>
<b>On balance sheet gap</b>		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>23,853,868</u>	<u>1,460,059</u>	<u>25,313,927</u>	<u>51,584,747</u>
<b>Unrecognized</b>												
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>
<b>Off balance sheet gap</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,941,718</u>	<u>1,460,059</u>	<u>8,401,777</u>	<u>34,672,598</u>

**OIL AND GAS DEVELOPMENT COMPANY LIMITED**  
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(Rupees '000)

**33.2 Interest rate risk**

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		
<b>Financial assets:</b>												
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>
<b>Financial liabilities:</b>												
Trade and other payables		-	-	-	-	-	-	-	4,497,037	-	4,497,037	4,497,037
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,497,037</u>	<u>-</u>	<u>4,497,037</u>	<u>4,497,037</u>
<b>On balance sheet gap</b>		<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>
<b>Unrecognized</b>												
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
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,218,193</u>	<u>-</u>	<u>14,218,193</u>	<u>14,218,193</u>
<b>Off balance sheet gap</b>		<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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	Note	2007	2006
<b>34 EARNINGS PER SHARE - BASIC AND DILUTED</b>			
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)		<u>10.52</u>	<u>10.65</u>

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

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

**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)	
<b>Associated Company</b>			
Dividend income received		23,520	22,770
<b>Related parties by virtue of common directorship and GoP holdings</b>			
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
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
<b>Other related parties</b>			
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

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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 EXECUTIVES AND EXECUTIVES**

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

	2007		2006	
	Chief Executive	Executives	Chief Executive	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).

**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.

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**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:

	<b>2007</b>	<b>2006</b>
	<b>(Rupees '000)</b>	
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>
	100,708,301	89,118,868
Transfer to capital reserve	(219,201)	(223,031)
Dividends	<u>(39,783,589)</u>	<u>(34,407,428)</u>
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>

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**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 \_\_\_\_\_ per share in their meeting held on \_\_\_\_\_.

**40 DATE OF AUTHORIZATION FOR ISSUE**

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

**41 GENERAL**

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