

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

1 LEGAL STATUS AND OPERATIONS

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

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

2 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

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

2.2 SIGNIFICANT ESTIMATES

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

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

Judgments made by the management in the application of IASs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.2.1 Property, plant and equipment

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

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2.2.2 Estimation of oil and natural gas reserves

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

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

2.2.3 Provision for decommissioning cost

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

2.2.4 Employee benefits

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

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

2.2.5 Taxation

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

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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 Company. The accounting policy for pension, post retirement medical benefits and accumulating compensated absences is described below:

4.1.1 Pension, post retirement medical benefits and accumulating compensated absences

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

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

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

The Company makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried 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.

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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 used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

4.3 PROPERTY, PLANT AND 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 Company and the cost of the item can be measured reliably. Carrying amount of the replaced part is recognized. All other repair and maintenance are charged to income during the year. Gain and losses on disposal of property, plant and equipment are included in the profit and loss account currently.

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

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

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

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

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

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.

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4.4 OIL AND GAS ASSETS

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

4.4.1 Pre license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the profit and loss account as they are incurred.

4.4.2 Exploration and evaluation assets

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

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

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

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

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

4.4.3 Development and production assets- intangible

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

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4.4.4 Decommissioning cost

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

The Company makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfill the obligation of site restoration and rehabilitation. The amount 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 depreciated as part of the capital cost of the development and production assets and property, plant and equipment.

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

4.4.5 Impairment of oil and gas assets

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

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

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

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

4.5 INVESTMENTS

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

4.5.1 Investments in subsidiaries and associated companies

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

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

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

4.5.2 Investments held to maturity

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

4.5.3 Investments available for sale

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

4.5.4 Investments at fair value through profit or loss

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

4.6 STORES, SPARE PARTS AND LOOSE TOOLS

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

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

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

4.7 STOCK IN TRADE

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

4.8 INTANGIBLES

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

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4.9 REVENUE RECOGNITION

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

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

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

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

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

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

4.10 BORROWING COSTS

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

4.11 JOINT VENTURE OPERATIONS

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

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

4.12 FOREIGN CURRENCIES

Pakistan rupees is the functional currency of the Company. Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pakistan rupees at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

4.13 PROVISIONS

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

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4.14 FINANCIAL INSTRUMENTS

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

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

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

4.15 OFFSETTING

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

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.

4.20 SELF INSURANCE SCHEME

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

4.21 IMPAIRMENT

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

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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 Company, 1,075,232,100 Ordinary fully paid shares of Rs 10 each were issued to GoP on 23 October 1997. Currently, the GoP holds 85.02% paid up capital of the Company.

Authorised share capital

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

6 CAPITAL RESERVE

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

7 DEFERRED TAXATION

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

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

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

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| | Note | 2007 (Rupees '000) | 2006 |
|-------------------------------------|------|-----------------------|------------------|
| 8 DEFERRED EMPLOYEE BENEFITS | | | |
| Post retirement medical benefits | 8.1 | 807,382 | 773,457 |
| Accumulating compensated absences | 8.2 | 615,750 | 646,788 |
| | | <u>1,423,132</u> | <u>1,420,245</u> |

8.1 Post retirement medical benefits

The amount recognized in the balance sheet is as follows:

| | | |
|---|----------------|----------------|
| Present value of defined benefit obligation | 608,371 | 538,894 |
| Un recognized actuarial gain | 199,011 | 234,563 |
| Net liability at end of the year | <u>807,382</u> | <u>773,457</u> |

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

| | | |
|--|----------------|----------------|
| Present value of defined benefit obligation at beginning of the year | 538,894 | 450,173 |
| Current service cost | 24,173 | 17,362 |
| Interest cost | 53,889 | 45,017 |
| Benefits paid | (21,553) | (19,793) |
| Actuarial loss | 12,968 | 46,135 |
| Present value of defined benefit obligation at end of the year | <u>608,371</u> | <u>538,894</u> |

Expense recognized in profit and loss account:

| | | |
|--|---------------|---------------|
| Current service cost | 24,173 | 17,362 |
| Interest cost | 53,889 | 45,017 |
| Net actuarial (gain) recognized | (22,584) | (29,460) |
| | 55,478 | 32,919 |
| Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited | (3,303) | (2,037) |
| | <u>52,175</u> | <u>30,882</u> |

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

| | | |
|-------------------------------------|---------------|---------------|
| Operating expenses | 25,522 | 25,775 |
| General and administration expenses | 3,953 | 5,107 |
| Technical services | 22,700 | - |
| | <u>52,175</u> | <u>30,882</u> |

Significant actuarial assumptions used were as follows:

| | | |
|----------------------------------|-------------|-------------|
| Discount rate per annum | 10% | 10% |
| Medical inflation rate per annum | 6% | 6% |
| Inflation rate per annum | 2% | 2% |
| Mortality rate | 61-66 years | 61-66 years |

A one percent change in the medical cost trend rate would have the following effect:

| | 1% increase | 1% decrease |
|--|-------------|-------------|
| Present value of medical obligation | 714,303 | 523,411 |
| Current service cost and interest cost | 102,094 | 72,526 |

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

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

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

The above provision for decommissioning cost is analyzed as follows:

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

Significant assumptions used were as follows:

| | | |
|--------------------------|-------|-------|
| Discount rate per annum | 10.2% | 10.2% |
| Inflation rate per annum | 7.63% | 7.63% |

10 TRADE AND OTHER PAYABLES

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2007

2007 **2006**
(Rupees '000)

10.1 Employees' pension trust

The amount recognized in the balance sheet is as follows:

| | | |
|---|--------------------|--------------------|
| Present value of defined benefit obligation | 9,320,649 | 7,622,259 |
| Fair value of plan assets | <u>(9,179,845)</u> | <u>(8,340,395)</u> |
| Deficit/(surplus) of the fund | 140,804 | (718,136) |
| Unrecognized actuarial (gain)/loss | <u>(140,804)</u> | <u>718,136</u> |
| Net liability at end of the year | <u>-</u> | <u>-</u> |

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 | <u>9,320,649</u> | <u>7,622,259</u> |

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 | <u>9,179,845</u> | <u>8,340,395</u> |

Expense recognized in profit and loss account:

| | | |
|--|----------------|----------------|
| Current service cost | 377,563 | 297,080 |
| Interest cost | 762,226 | 747,913 |
| Expected return on plan assets | (834,040) | (754,348) |
| Allocated to wholly owned subsidiary - Pirkoh Gas Company (Private) Limited | (12,546) | (12,191) |
| | <u>293,203</u> | <u>278,454</u> |

Plan assets comprises of:

| | | |
|------------------------|------------------|------------------|
| Bonds | 8,567,514 | 7,082,842 |
| Equity | 607,943 | - |
| Cash and bank balances | 4,388 | 1,257,553 |
| | <u>9,179,845</u> | <u>8,340,395</u> |

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

| | | |
|-------------------------------------|----------------|----------------|
| Operating expenses | 121,603 | 111,794 |
| General and administration expenses | 62,146 | 56,987 |
| Technical services | 109,454 | 109,673 |
| | <u>293,203</u> | <u>278,454</u> |

Actual return on plan assets

| | | |
|--|----------------|----------------|
| | <u>765,000</u> | <u>750,000</u> |
|--|----------------|----------------|

Comparison of present value of defined benefit obligation, fair value of plan assets and surplus or deficit of pension fund for five years is as follows:

| | 2007 | 2006 | 2005 (Rupees '000) | 2004 | 2003 |
|---|--------------------|--------------------|-----------------------|--------------------|--------------------|
| Present value of defined benefit obligation | 9,320,649 | 7,622,259 | 7,543,651 | 6,325,301 | 4,661,329 |
| Fair value of plan assets | <u>(9,179,845)</u> | <u>(8,340,395)</u> | <u>(7,543,484)</u> | <u>(7,423,308)</u> | <u>(4,101,349)</u> |
| 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% |

2007
2006
(Rupees '000)

11 PROVISION FOR TAXATION

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

12 CONTINGENCIES AND COMMITMENTS

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
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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 |
|----------------------------------|---------------|----------------|---|--|---------------------|-----------|-----------|-------------------------------|-------------------------------------|------------------------|----------|-----------|----------------------|---------------------------------------|-------------------------------------|-------------|
| Cost | | | | | | | | | | | | | | | | |
| Balance as at 01 July 2005 | 139,019 | 363,026 | 1,696,160 | 650,682 | 32,602,903 | 734,984 | 4,254,337 | 368,844 | 416,157 | 49,556 | 19,855 | 2,083,405 | 601,168 | 1,179,290 | 802,041 | 45,961,427 |
| Additions | 8,947 | 10,672 | 129,362 | 35,486 | 1,837,305 | 142,646 | 172,753 | 75,481 | 63,008 | 1,173 | - | 297,577 | - | 594,141 | 59,615 | 3,428,166 |
| Disposals/ transfers | - | - | - | - | (52,882) | (5,270) | - | (2,305) | (1) | - | - | (78,766) | (175,105) | (682,586) | (184,215) | (1,181,130) |
| Adjustments | - | - | (1,888) | 1,888 | (3,505,761) | - | 3,505,761 | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2006 | 147,966 | 373,698 | 1,823,634 | 688,056 | 30,881,565 | 872,360 | 7,932,851 | 442,020 | 479,164 | 50,729 | 19,855 | 2,302,216 | 426,063 | 1,090,845 | 677,441 | 48,208,463 |
| Balance as at 01 July 2006 | 147,966 | 373,698 | 1,823,634 | 688,056 | 30,881,565 | 872,360 | 7,932,851 | 442,020 | 479,164 | 50,729 | 19,855 | 2,302,216 | 426,063 | 1,090,845 | 677,441 | 48,208,463 |
| Additions | 7,125 | 2,821 | 114,713 | 31,004 | 1,792,275 | 152,361 | 434,448 | 44,299 | 83,018 | 5,691 | - | 697,702 | 176,606 | 751,790 | 389,578 | 4,683,431 |
| Disposals/ transfers | - | - | - | - | (26,026) | (5,195) | - | (4,002) | (13,264) | - | - | (70,142) | - | (37,233) | (62,235) | (218,097) |
| Adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2007 | 155,091 | 376,519 | 1,938,347 | 719,060 | 32,647,814 | 1,019,526 | 8,367,299 | 482,317 | 548,918 | 56,420 | 19,855 | 2,929,776 | 602,669 | 1,805,402 | 1,004,784 | 52,673,797 |
| Depreciation | | | | | | | | | | | | | | | | |
| Balance as at 01 July 2005 | - | 115,863 | 361,581 | 238,393 | 18,895,695 | 571,816 | 2,705,018 | 293,999 | 380,098 | 13,762 | 17,869 | 1,807,587 | 72,411 | - | - | 25,474,092 |
| Charge for the year | - | 10,160 | 95,302 | 56,439 | 1,828,998 | 27,814 | 387,433 | 20,839 | 31,983 | 6,444 | - | 113,316 | 36,717 | - | - | 2,615,445 |
| On disposals/ transfers | - | - | - | - | (50,709) | (5,193) | - | (2,224) | - | - | - | (76,196) | - | - | - | (134,322) |
| Adjustments | - | - | - | - | (2,439,437) | - | 2,439,437 | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2006 | - | 126,023 | 456,883 | 294,832 | 18,234,547 | 594,437 | 5,531,888 | 312,614 | 412,081 | 20,206 | 17,869 | 1,844,707 | 109,128 | - | - | 27,955,215 |
| Balance as at 01 July 2006 | - | 126,023 | 456,883 | 294,832 | 18,234,547 | 594,437 | 5,531,888 | 312,614 | 412,081 | 20,206 | 17,869 | 1,844,707 | 109,128 | - | - | 27,955,215 |
| Charge for the year | - | 10,157 | 94,078 | 89,063 | 1,772,290 | 49,404 | 736,474 | 29,856 | 42,284 | 6,909 | - | 178,058 | 85,982 | - | 139,954 | 3,234,509 |
| On disposals/ transfers | - | - | - | - | (25,752) | (5,153) | - | (3,853) | (13,140) | - | - | (68,230) | - | - | - | (116,128) |
| Balance as at 30 June 2007 | - | 136,180 | 550,961 | 383,895 | 19,981,085 | 638,688 | 6,268,362 | 338,617 | 441,225 | 27,115 | 17,869 | 1,954,535 | 195,110 | - | 139,954 | 31,073,596 |
| Carrying amount - 2006 | 147,966 | 247,675 | 1,366,751 | 393,224 | 12,647,018 | 277,923 | 2,400,963 | 129,406 | 67,083 | 30,523 | 1,986 | 457,509 | 316,935 | 1,090,845 | 677,441 | 20,253,248 |
| Carrying amount - 2007 | 155,091 | 240,339 | 1,387,386 | 335,165 | 12,666,729 | 380,838 | 2,098,937 | 143,700 | 107,693 | 29,305 | 1,986 | 975,241 | 407,559 | 1,805,402 | 864,830 | 21,600,201 |
| Rates of depreciation (%) | - | 1~3.3 | 2.5~8 | 2.5~8 | 4~20 | 10 | 10 | 15 | 30 | 15 | 10 | 20 | 1~10 | - | 2.5 | |

OIL AND GAS DEVELOPMENT COMPANY LIMITED

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FOR THE YEAR ENDED 30 JUNE 2007

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

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

13.3 Capital works in progress

Production facilities and other civil works in progress:

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

13.4 Details of property, plant and equipment sold:

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

14 DEVELOPMENT AND PRODUCTION ASSETS- Intangible

(Rupees '000)

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

2007 2006
(Rupees '000)

14.1 Wells in progress

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2007

| | | 2007 | 2006 |
|--|-------------|----------------------|-------------|
| | Note | (Rupees '000) | |
| 15 EXPLORATION AND EVALUATION ASSETS | | | |
| Balance at beginning of the year | | 2,551,149 | 1,225,968 |
| Additions | | 8,069,762 | 4,847,558 |
| | | 10,620,911 | 6,073,526 |
| Cost of dry and abandoned wells | 28 | (4,200,530) | (1,512,128) |
| Cost of wells transferred to development and production assets | | (4,545,011) | (2,010,249) |
| | | (8,745,541) | (3,522,377) |
| | | 1,875,370 | 2,551,149 |
| Stores held for exploration and evaluation activities | 15.1 | 4,490,336 | 1,796,993 |
| Balance at end of the year | | 6,365,706 | 4,348,142 |

15.1 Stores held for exploration and evaluation activities

| | | |
|----------------------------------|-------------|-----------|
| Balance at beginning of the year | 1,796,993 | 533,994 |
| Additions | 3,856,654 | 1,872,609 |
| Issuances | (1,163,311) | (609,610) |
| Balance at end of the year | 4,490,336 | 1,796,993 |

15.2 The following disclosures detail the liabilities, other assets and expenditure incurred on exploration for and evaluation of mineral resources.

| | | 2007 | 2006 |
|--|-------------|----------------------|-------------|
| | Note | (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 |

16 LONG TERM INVESTMENTS

| | | | |
|--------------------------------|------|-----------|-----------|
| Investments in related parties | 16.1 | 491,500 | 491,500 |
| Investments held to maturity | 16.2 | 2,454,438 | 2,267,412 |
| | | 2,945,938 | 2,758,912 |

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | 2007 | 2006 |
|--|----------------|----------------|
| | (Rupees '000) | |
| 16.1 Investments in related parties | | |
| Wholly owned subsidiary - unquoted | | |
| Pirkoh Gas Company (Private) Limited | 418,000 | 418,000 |
| Percentage holding 100% (2006: 100%) | | |
| 1,254,000 (2006: 1,254,000) fully paid Ordinary shares of Rs 1,000 each (including 836,000 bonus shares). Breakup value based on audited financial statements was Rs 6,655 million (2006: Rs 7,051 million). | | |
| The Board of Directors of the Company in consultation with the Privatization Commission of Pakistan has, in principle, approved merger of the subsidiary with the Company. | | |
| Associated Company - quoted | | |
| Mari Gas Company Limited | 73,500 | 73,500 |
| Percentage holding 20% (2006: 20%) | | |
| 7,350,000 (2006: 7,350,000) fully paid Ordinary shares of Rs 10 each | | |
| Market value Rs 1,286 million (2006: Rs 930 million) | | |
| | <u>491,500</u> | <u>491,500</u> |

16.2 Investments held to maturity

| | | | |
|------------------------------------|--------|------------------|------------------|
| Defence Saving Certificates (DSCs) | 16.2.1 | 389,097 | 673,307 |
| Term Deposit Receipts (TDRs) | 16.2.2 | 2,065,341 | 1,594,105 |
| | | <u>2,454,438</u> | <u>2,267,412</u> |

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

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

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

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

| | Note | 2007 | 2006 |
|---|------|------------------|------------------|
| | | (Rupees '000) | |
| 17 LONG TERM LOANS AND RECEIVABLES | | | |
| Long term loans - secured | 17.1 | 1,117,755 | 919,725 |
| Long term receivables - unsecured | 17.2 | - | 471,827 |
| | | <u>1,117,755</u> | <u>1,391,552</u> |

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

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

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

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

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

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

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

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) | |
| 20 LOANS AND ADVANCES | | | |
| Advances considered good: | | | |
| Suppliers and contractors | | 683,970 | 315,433 |
| Joint venture partners | | 637,527 | 799,664 |
| Others | | 26,692 | 22,809 |
| | | <u>1,348,189</u> | <u>1,137,906</u> |
| Current portion of long term loans- secured | 17.1 | 190,468 | 163,853 |
| | | <u>1,538,657</u> | <u>1,301,759</u> |
| Advances considered doubtful | | 263,622 | 269,052 |
| | | <u>1,802,279</u> | <u>1,570,811</u> |
| Provision for doubtful advances | | (263,622) | (269,052) |
| | | <u>1,538,657</u> | <u>1,301,759</u> |

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | 2007 (Rupees '000) | 2006 |
|---|------|-----------------------|----------------|
| 21 DEPOSITS AND SHORT TERM PREPAYMENTS | | | |
| Security deposits | | 8,888 | 8,699 |
| Short term prepayments | | 284,040 | 291,561 |
| | | <u>292,928</u> | <u>300,260</u> |

22 OTHER RECEIVABLES

| | | | |
|---|------|------------------|----------------|
| Development surcharge | | 76,307 | 76,115 |
| Receivable from subsidiary | 22.1 | 61,338 | 27,682 |
| Current portion of long term receivables- unsecured | 17.2 | 533,400 | 533,400 |
| Claims receivable | | 19,209 | 14,940 |
| Workers' profit participation fund | 22.2 | 286,383 | 30,983 |
| Others | | 86,752 | 107,002 |
| | | <u>1,063,389</u> | <u>790,122</u> |

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

| | Note | 2007 (Rupees '000) | 2006 |
|--|------|-----------------------|------------------|
| 22.2 Workers' profit participation fund | | | |
| Receivable at beginning of the year | | 30,983 | 119,989 |
| Paid to the fund during the year | | 3,500,000 | 3,500,000 |
| | | <u>3,530,983</u> | <u>3,619,989</u> |
| Received during the year | | (30,983) | (119,989) |
| Charge for the year | | (3,213,617) | (3,469,017) |
| Receivable at end of the year | | <u>286,383</u> | <u>30,983</u> |

23 OTHER FINANCIAL ASSETS

Investments:

| | | | |
|--|------|-------------------|-------------------|
| At fair value through profit or loss - NIT units | | 279,909 | 219,523 |
| Available for sale | 23.1 | 13,274,050 | 30,990,409 |
| | | <u>13,553,959</u> | <u>31,209,932</u> |

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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

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

| | 2007 | 2006 |
|---|---------------|-------|
| | (Rupees '000) | |
| 30 FINANCE COSTS | | |
| Unwinding of discount on provision for decommissioning cost | 443,699 | - |
| Bank charges | 5,862 | 9,973 |
| | 449,561 | 9,973 |

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | 2007 (Rupees '000) | 2006 |
|---|------|-----------------------|-------------------|
| 31 TAXATION | | | |
| Provision for current taxation - for the year | | 14,415,837 | 18,880,901 |
| Provision for deferred taxation | | 1,012,925 | 1,062,703 |
| | 31.1 | <u>15,428,762</u> | <u>19,943,604</u> |
| 31.1 Reconciliation of tax charge for the year : | | | |
| Accounting profit | | 61,058,726 | 65,911,327 |
| Tax rate | | <u>52.48%</u> | <u>52.91%</u> |
| Tax on accounting profit at applicable rate | | 32,045,451 | 34,875,067 |
| Tax effect of amounts/expenses that are inadmissible for tax purposes | | 9,180,984 | 9,419,705 |
| Tax effect of amounts/expenses that are admissible for tax purposes | | (9,010,560) | (7,929,173) |
| Tax effect of royalty allowed for tax purposes | | (10,877,445) | (10,872,443) |
| Tax effect of depletion allowance for tax purposes | | (7,999,596) | (7,794,993) |
| Dividend chargeable to tax at reduced rate | | 14,197 | 19,948 |
| Income chargeable to tax at corporate rates | | 1,062,806 | 1,162,790 |
| Tax effect of timing differences | | 1,012,925 | 1,062,703 |
| | | <u>15,428,762</u> | <u>19,943,604</u> |

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

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

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

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

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

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(Rupees '000)

32.1 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 | | |
| Financial assets: | | | | | | | | | | | | |
| Long term investments | 10.8% -18 % | 2,255,354 | 199,084 | - | - | - | - | 2,454,438 | - | - | - | 2,454,438 |
| Long term loans and receivables | 10.65% | 39,007 | 35,895 | 33,375 | 26,860 | 22,822 | 106,578 | 264,537 | 684,861 | 892,225 | 1,577,086 | 1,841,623 |
| Trade debts | | - | - | - | - | - | - | - | 27,873,515 | - | 27,873,515 | 27,873,515 |
| Loans and advances | | - | - | - | - | - | - | - | 664,219 | - | 664,219 | 664,219 |
| Deposits | | - | - | - | - | - | - | - | 8,888 | - | 8,888 | 8,888 |
| Other receivables | | - | - | - | - | - | - | - | 453,682 | - | 453,682 | 453,682 |
| Interest accrued | | - | - | - | - | - | - | - | 253,222 | - | 253,222 | 253,222 |
| Other financial assets | 5.3 %-11.60 % | 13,274,050 | - | - | - | - | - | 13,274,050 | 279,909 | - | 279,909 | 13,553,959 |
| Cash and bank balances | 1.75 %-9.5 % | 4,541,284 | - | - | - | - | - | 4,541,284 | 179,008 | - | 179,008 | 4,720,292 |
| | | <u>20,109,695</u> | <u>234,979</u> | <u>33,375</u> | <u>26,860</u> | <u>22,822</u> | <u>106,578</u> | <u>20,534,309</u> | <u>30,397,304</u> | <u>892,225</u> | <u>31,289,529</u> | <u>51,823,838</u> |
| Financial liabilities: | | | | | | | | | | | | |
| Trade and other payables | | - | - | - | - | - | - | - | 7,225,005 | - | 7,225,005 | 7,225,005 |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,225,005</u> | <u>-</u> | <u>7,225,005</u> | <u>7,225,005</u> |
| On balance sheet gap | | <u>20,109,695</u> | <u>234,979</u> | <u>33,375</u> | <u>26,860</u> | <u>22,822</u> | <u>106,578</u> | <u>20,534,309</u> | <u>23,172,299</u> | <u>892,225</u> | <u>24,064,524</u> | <u>44,598,833</u> |
| Unrecognized | | | | | | | | | | | | |
| Commitments (other than LCs) | | - | - | - | - | - | - | - | 12,256,639 | - | 12,256,639 | 12,256,639 |
| Claim not acknowledged as debts | | - | - | - | - | - | - | - | 232,491 | - | 232,491 | 232,491 |
| Letters of credit | | - | - | - | - | - | - | - | 4,318,176 | - | 4,318,176 | 4,318,176 |
| Guarantees | | - | - | - | - | - | - | - | 104,844 | - | 104,844 | 104,844 |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>16,912,150</u> | <u>-</u> | <u>16,912,150</u> | <u>16,912,150</u> |
| Off balance sheet gap | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,260,149</u> | <u>892,225</u> | <u>7,152,374</u> | <u>27,686,683</u> |

OIL AND GAS DEVELOPMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

(Rupees '000)

32.2 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 | | |
| Financial assets: | | | | | | | | | | | | |
| Long term investments | 11%-18% | 1,937,602 | 240,354 | 89,456 | - | - | - | 2,267,412 | - | - | - | 2,267,412 |
| Long term loans and receivables | 8.22% | 48,884 | 33,968 | 46,587 | 51,329 | 41,845 | - | 222,613 | 660,989 | 1,205,203 | 1,866,192 | 2,088,805 |
| Trade debts | | - | - | - | - | - | - | - | 24,498,986 | - | 24,498,986 | 24,498,986 |
| Loans and advances | | - | - | - | - | - | - | - | 850,155 | - | 850,155 | 850,155 |
| Deposits | | - | - | - | - | - | - | - | 8,699 | - | 8,699 | 8,699 |
| Other receivables | | - | - | - | - | - | - | - | 152,925 | - | 152,925 | 152,925 |
| Interest accrued | | - | - | - | - | - | - | - | 464,982 | - | 464,982 | 464,982 |
| Other financial assets | 4%-11.4% | 30,990,409 | - | - | - | - | - | 30,990,409 | 219,523 | - | 219,523 | 31,209,932 |
| Cash and bank balances | 2.8%-9.5% | 1,036,555 | - | - | - | - | - | 1,036,555 | 150,315 | - | 150,315 | 1,186,870 |
| | | <u>34,013,450</u> | <u>274,322</u> | <u>136,043</u> | <u>51,329</u> | <u>41,845</u> | <u>-</u> | <u>34,516,989</u> | <u>27,006,574</u> | <u>1,205,203</u> | <u>28,211,777</u> | <u>62,728,766</u> |
| Financial liabilities: | | | | | | | | | | | | |
| Trade and other payables | | - | - | - | - | - | - | - | 4,401,876 | - | 4,401,876 | 4,401,876 |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,401,876</u> | <u>-</u> | <u>4,401,876</u> | <u>4,401,876</u> |
| On balance sheet gap | | <u>34,013,450</u> | <u>274,322</u> | <u>136,043</u> | <u>51,329</u> | <u>41,845</u> | <u>-</u> | <u>34,516,989</u> | <u>22,604,698</u> | <u>1,205,203</u> | <u>23,809,901</u> | <u>58,326,890</u> |
| Unrecognized | | | | | | | | | | | | |
| 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> |
| Off balance sheet gap | | <u>34,013,450</u> | <u>274,322</u> | <u>136,043</u> | <u>51,329</u> | <u>41,845</u> | <u>-</u> | <u>34,516,989</u> | <u>8,386,505</u> | <u>1,205,203</u> | <u>9,591,708</u> | <u>44,108,697</u> |

32.3 Credit risk

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

32.4 Currency risk

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

32.5 Liquidity risk

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

32.6 Fair value of financial assets and liabilities

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

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| | Note | 2007 | 2006 |
|---|------|--------------|--------------|
| 33 EARNINGS PER SHARE - BASIC AND DILUTED | | | |
| Profit for the year (Rupees '000) | | 45,629,964 | 45,967,723 |
| Average number of shares outstanding during the year ('000) | | 4,300,928 | 4,300,928 |
| Earnings per share - basic (Rupees) | | <u>10.61</u> | <u>10.69</u> |

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

| | | 2007 | 2006 |
|--------------------------------------|----|-------------------|-------------------|
| | | (Rupees '000) | |
| 34 CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 24 | 4,720,292 | 1,186,870 |
| Short term highly liquid investments | 23 | 13,274,050 | 30,990,409 |
| | | <u>17,994,342</u> | <u>32,177,279</u> |

35 RELATED PARTIES TRANSACTIONS

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

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

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

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

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35.1 REMUNERATION TO CHIEF EXECUTIVE 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 | Executive | 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).

36 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

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

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

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

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

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

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

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37 CORRESPONDING FIGURES

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

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

38 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors proposed final dividend at the rate of Rs _____ per share in their meeting held on _____.

39 DATE OF AUTHORIZATION FOR ISSUE

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

40 GENERAL

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

Chairman and Chief Executive

Director