

Managing Director's Review



I feel pleasure to report that 2010-11 was another successful year for the Company. During the year under review, the Company continued to show consistent increase in profitability and stable operating results. Company's sales revenue and Profit after Taxation (PAT) depicted a growth of 9.2% and 7.4% to Rs 155.631 billion and Rs 63.527 billion respectively, translating into Earnings per Share (EPS) of Rs 14.77 compared to Rs 13.76 during the preceding year. Additionally, during the year under review, OGDCL maintained its position as the leading performer in the Exploration and Production (E&P) Sector in terms of oil and gas reserves, production and exploration acreage.

Liquidity and Cash Flow

Cash flow from operations for the year under review after working capital changes and payment of income tax of Rs 29.403 billion and royalty of Rs 29.863 billion was Rs 67.924 billion, showing an increase of Rs 6.418 billion over the last year. After investment and financing activities of Rs 37.147 billion (cash outflow) and Rs 2.527 billion (cash inflow) respectively, the Company's cash and cash equivalents increased by Rs 33.305 billion with the ending balance of Rs 52.142 billion as on 30 June 2011. Its trade debts and current liabilities reduced by Rs 5.081 billion & Rs 13.065 billion and current & quick ratios surged to 6.87 times and 6.22 times respectively. At present, the Company is maintaining strong liquidity position to meet its commitments towards important development projects.

Excellence Awards

KSE Top Twenty Five Companies Award

OGDCL has been ranked amongst the "Top 25 Companies" on the Karachi Stock Exchange (KSE) for the sixth consecutive year (2004-2009). The selection for the award reflects OGDCL's dedication and commitment to the best practices of Corporate Governance in addition to meeting the pre-requisites laid down by the KSE Board for all listed companies.

Best Corporate Report Award

OGDCL's Annual Report for the year 2009 won the Best Corporate Report Award for the fourth consecutive year (2006-2009). Evaluation for the best corporate reports has been made by the Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP). OGDCL won the third prize in fuel and energy sector.

Environment Excellence Award 2011

OGDCL was also awarded the 8th National Forum for Environment and Health (NFEH) Annual Environment Excellence Award (AEEA) 2011 on account of excellent environmental initiatives and successful implementation of environmental management system at its major sites.

Operational Activities

Exploration and Development

On the operational front, the Company is striving to give further boost to its exploration and development activities in order to enhance oil & gas reserves and production, making a conscious effort to meet the energy demands of the Country.

During the year 2010-11, the seismic crew of the Company was able to acquire 1,500 L. kms of 2-D and 660 sq. kms of 3-D seismic data in various concessions / blocks. Additionally, 1,058 L. kms of 2-D seismic data processing and 674 L. kms of 2-D seismic data reprocessing was carried out using in-house facilities to expedite the prospect generation work. Furthermore, 6,663 L. kms of 2-D and 806 sq. kms of 3-D seismic data were also processed through outsourcing. OGDCL's geological survey crew carried out 316 L. kms traverse in Rajdhani Block and 180 L. kms traverses in Soghari EL during the year including geological mapping of 2,335.10 sq. kms &

588.09 sq. kms respectively and collected 310 samples from all over the project area for reservoir / source studies.

During the year, twenty nine (29) well locations were marked on the ground out of which twenty one (21) wells were spudded in. The spudded wells include seven (7) exploratory wells namely Sehar-1, Zin X-1, Jabbi-1, Gulsher-1, Suleman-1, Ajuwala-1 and Maru South-1, three (3) appraisal wells namely Naspha-2, Maru-2 and Naspha-3 and eleven (11) development wells namely Qadirpur-41, Thora-8, Uch-23, Uch-24, Uch-28, Uch-29, Uch-30, Uch-31, Uch-33, Pasakhi-7 and Qadirpur-42 Extended Reach Well (ERW). Furthermore, civil work on Qadirpur-43 (ERW) is completed while civil work on three (3) wells namely Dhachrapur-2, Uch-19 and Qadirpur-44 (ERW) is underway. In addition, work-over jobs on nine (9) wells were also carried out during the year under review. Subsequently, in July 2011, the Company also spudded in two (2) new wells namely Rajian-6 and Qadirpur-32A.

The Company is constantly striving to further excel in its operational performance and endeavors to sustain the corporate culture of transparency and accountability, in-line with its Statement of Business Ethics and Business Practices. We focus our energies on not only our core business i.e. exploration and production but also on meeting stringent HSE standards, while operating as a socially responsible corporate citizen, improving the lives of people and communities with whom OGDCL interacts.

To maintain OGDCL's position as an industry leader and to play a pivotal role in acquiring energy security for Pakistan, is the challenge that provides us the impetus to go ahead with full zeal and conviction to

contribute in meeting the energy demands of the Country while maximizing returns for our shareholders.

Oil and Gas Reserves

OGDCL's remaining recoverable reserves as of 30 June 2011 stood at 133.7 MMstb oil and 9,651 Bcf gas as compared to 142.7 MMstb oil and 9,967 Bcf gas respectively as on 30 June 2010.

Production

The Company continues to pursue best practices to maintain and enhance production and keep natural decline to the minimum with application of rig-less techniques and through planned work-over jobs. On the gross basis OGDCL produced from its owned and operated joint venture fields 36,842 Bopd, 862 MMcfd of gas, 121 M. Tons of LPG and 73 M.Tons of Sulphur.

During the year, the discovery of Nashpa enabled the Company to put the exploratory well on regular production giving 6,000 Bopd and 20 MMcfd gas. In order to give further boost to oil / gas production and to fully appraise the reservoir, the Company has two (2) wells under drilling at Nashpa out of which one well after testing will soon be put on production. In addition, OGDCL brought Bahu gas field on production using its own resources supplying 21 MMcfd gas with effect from January 2011. Another new well Sheikhan-1 was also put on production which initially produced 15 MMcfd gas.

In Northern fields, two successful work-overs were carried out which added 1,100 Bopd and 2.5 MMcfd gas. Annual turnaround (ATA) of processing plants at Qadirpur, Uch, Dakhni, Kunnar, Bobi, and Chanda was also carried out to increase operational efficiency of



ED (Finance) /CFO OGDCL receives the Corporate Report Award.



GM (HSEQ) OGDCL receives the Environment Excellence Award.



Timely dispatch of crude oil from Tando Alam Oil Complex (TOC).

these plants. It is also worth mentioning that compressors at Qadirpur field were commissioned during the ATA of the plant. Moreover, in-line inspection for Mechanical Integrity Assessment (MIA) of the most important critical line segments was carried out first time in OGDCL without any shutdown, production losses or operational hindrance. Additionally, the Company also carried out MIA of critical equipment of some fields and processing plants using conventional and advanced Non Destructive Testing (NDT) techniques along with application of Risk-Based Inspections.

Development Projects

The Company is currently working on the following six (6) development projects:

Sinjhero Development Project

The Sinjhero project is located near district Sanghar, Sindh. The Management of the Company has decided to develop the field on its own by relocating Dhodak plant to Sinjhero along with installation of some new units such as amine unit, feed / sales gas compressors, sales gas metering skid etc.

The project will be completed in two phases. The first phase of the project is expected to be completed by January 2012 and will enhance the production flow by 1,400 Bopd, 15 MMcfd of gas and 50 M.Tons of LPG per day. The second phase of the project is expected to be completed by April 2012 and will enhance the cumulative production flow to 3,000-3,500 Bopd, 25-30 MMcfd of gas and 120-140 M.Tons per day of LPG.

KPD-TAY Integrated Development Project

The Kunnar Pasahki Deep - Tando Allah Yar (KPD-TAY) integrated development project is located adjacent to existing Kunnar LPG plant in district Hyderabad of Sindh province. The project consists of setting up new stand-alone facilities comprising of wellhead facilities, dehydration, amine, LPG plant, sales gas & wellhead compression and 30 kms long trunk line connected with gas processing plant. There are twenty seven (27) wells to be connected to the gas gathering system and gas processing plant will treat approximately 315 MMcfd of raw gas.

OGDCL is planning to setup the project in two phases by itself. Under Phase-I, 100 MMcfd of dehydrated gas and 1,000 Bpd of condensate would be supplied into SSGCL network by November, 2011. Simultaneously, OGDCL will develop the total facilities during the 2nd phase to fully process the 312 MMcfd of raw gas including LPG extraction and supply the fully processed gas to Sui Southern Gas Company Limited (SSGCL). The project is expected to be completed by August 2013 and the expected production from the project will be 284 MMcfd of gas, 4,400 Bopd, 387 M.Tons of LPG per day and 400 Bpd of NGL.

Dakhni Expansion Project

The project is located in district Attock, Punjab province. Most of the equipment / packages have been received and installed by OGDCL. Dakhni Expansion project is expected to be completed by December 2011. The contractor has been mobilized to the site. The incremental production after expansion will be 12 MMcfd

of gas, 720 Bpd of condensate, 80 M.Tons of sulphur per day and 12 M. Tons of LPG per day.

Jhal Magsi Development Project

Jhal Magsi gas field is located in district Jhal Magsi, Balochistan province and is a joint venture among OGDCL, Government Holdings Private Limited (GHPL) and Pakistan Oilfields Limited (POL). Dehydration / Compression / H₂S removal plant will be installed at the field for removing high contents of H₂S. The project will be undertaken after 3rd party reservoir certification is done.

UCH-II Development Project

The Uch gas field is located about 67 kms South East of Dera Bugti in Balochistan province. OGDCL has already drilled 12 wells out of 15 planned wells. After completion of the project it is expected that Uch field would be able to supply additional 160 MMcfd of gas to Uch Power Limited (UPL). Gas Sale Agreement (GSA) has been signed with Uch II Power Company (Pvt.) Limited and is effective from 30 April 2011.

Qadirpur Compression Project

OGDCL has successfully installed fourteen (14) reciprocating gas compressors at Qadirpur gas field to maintain the production plateau of 550-600 MMcfd of gas. Performance test shall be carried out by end of September 2011. Out of three (3) Extended Reach Wells (ERW) planned to be drilled to increase the gas production in order to meet the pressure requirement of Sui Northern Gas Pipeline Limited (SNGPL), the Company has successfully completed one well while remaining two (2) wells are presently under drilling. The completed well is producing 32 MMcfd of gas. Further, OGDCL anticipates to add 18-20 MMcfd of gas from Qadirpur after commissioning of two (2) new permeate compressors in August 2011.

Non-Operated Joint Ventures

Adhi D& PL

Adhi oil field is located in the district Rawalpindi of Punjab province and operated by Pakistan Petroleum Limited (PPL) wherein OGDCL has a 50% working interest. The average oil / condensate, gas and LPG production from the field is 5,284 Bpd of oil/condensate, 39 MMcfd of gas and 124 M.Tons of LPG per day as against 4,875 Bpd of oil / condensate, 41 MMcfd of gas and 135 M.Tons per day of LPG during 2010. As part of the strategy of enhancing production, the increase

in crude oil/condensate production in 2011 is due to fracture jobs carried out at wells Adhi-9, Adhi-12 & Adhi-14 while minor reduction in gas / LPG is due to slight change in composition of the well feed (Gas Oil Ratio). In addition to workover program of the existing wells, a well is planned to be drilled in 2011-12.

TAL Concession

Tal concession spreads over Karak, Kohat and Bannu area in Khyber Pakhtunkhwa province. MOL Pakistan is the operator of Tal concession and OGDCL holds 27.76% pre-commercial and 30% post commercial working interest in the above concession. During the year under review, Tal joint venture successfully completed two exploratory wells Tolanj X-1 and Makori East -1 which started last year. The joint venture plans to drill two appraisal wells as part of its work program for the year 2011-12 whereas, drilling of one of these wells has already started in July 2011. Acquisition of 200 L. kms 2-D and 555 sq. kms 3-D seismic data is also part of the Tal joint venture approved work program for the year 2011-12. Presently, TAL average production is 7,715 Bopd and 315 MMcfd of pipeline quality gas from Tal block which is being sold to Attock Refinery Limited (ARL) and SNGPL respectively. The Tal production has increased by 1,660 Bpd of oil / condensate and 30 MMcfd of gas as against the average production during the year 2010. Currently twelve (12) wells are on production, out of which eight (8) wells are from Manzalai field, two (2) wells from Makori field and one each from Mamikhel and Maramzai field.

Pindori D&PL

Pindori is located in district Chakwal, Punjab. Pakistan Oilfields Limited (POL) is the operator of Pindori D&PL wherein OGDCL holds 50% interest. Presently, joint venture is getting production from four (4) wells out of which two (2) are being produced on intermittent flow. The current average production is 785 Bpd of condensate, 2.21 MMcfd of gas and 15 M.Tons/day of LPG.

Miano D&PL

Miano gas field is located in district Sukkur, Sindh province and operated by OMV Pakistan whereas, OGDCL is a major stakeholder having 52% working interest. During the year, the joint venture has successfully drilled a development well Miano-14 which has enhanced the production of the field by 25 MMcfd. The total number of producing wells is six (6) in Miano D&PL and presently the field is producing 81 MMcfd of gas. The joint venture has planned to drill another well Miano-15 in the year 2011-12.

Kadanwari, Bhit & Badhra Fields

Kadanwari gas field is located in district Khairpur, Sindh province while Bhit & Badhra are located in district Dadu, Sindh province. ENI Pakistan is the operator of Kadanwari, Bhit and Badhra fields and OGDCL's working interest is 50%, 20% and 20% respectively. During the year under review, five (5) wells were put on production. The objective is to increase recovery from the existing fields by drilling in-fill wells and installation of well head compressors to keep the production at optimum level. Currently, Bhit is producing 253 Bpd of condensate and 373 MMcfd of raw gas whereas, Badhra's production is 25 MMcfd of raw gas only. Kadanwari field is producing 27 Bpd of condensate and 98 MMcfd of raw gas. Presently, twenty (21) wells are on production in Kadanwari, Bhit and Badhra fields. Besides above, the joint venture plans to drill seven (7) additional wells in the year 2012 in Kadanwari, Bhit & Badhra fields.

Dhurnal, Bhangali and Ratana Fields

Dhurnal, Bhangali and Ratana fields are located in district Attock and Rawalpindi, Punjab province. Ocean Pakistan Limited (OPL) is the operator of Dhurnal, Bhangali & Ratana fields whereas, OGDCL's working interest is 20%, 50% & 25% respectively. The current production of Dhurnal is 170 Bpd of oil/ condensate and 0.94 MMcfd of gas while Ratana is producing 529 Bpd of oil / condensate, 12.54 MMcfd of gas and 17 M.Tons of LPG. For the year 2011-12, the joint venture has started drilling of a new well, Ratana-4 whereas, 3-D seismic activities are being carried out in Bhangali field with a view to evaluate prospects for drilling of a new well.

Badar Field

Badar gas field is located in district Jacobabad, Sindh province and operated by Petroleum Exploration (Pvt) Limited (PEL) as an operator in which OGDCL holds 50% working interest. The gas production from the field commenced on 08 April 2006 and currently the average production is 14 MMcfd of gas which after processing is being supplied to SNGPL. Based on the results of regular periodic pressure surveys, the Badar joint venture has planned to drill a development well during the year 2011-12 to enhance the production of the field.

Badin-II, Badin-II Rev. & Badin-III Fields

Badin fields are located in district Badin, Sindh province and operated by BP Pakistan Exploration & Production Inc. wherein OGDCL holds 49%, 24% & 15% working interest in Badin-II, Badin-II Rev. & Badin-III blocks respectively (collectively referred as 'Badin fields').

Badin fields average gross production was 1,900 Bpd of oil / condensate and 30 MMcfd of gas during the month of June 2011. The joint venture has drilled four (4) wells during the year 2010 and four (4) more are planned to be drilled during the year 2011.

Sara & Suri Fields

Sara & Suri fields are operated by Tullow Pakistan. OGDCL has 40% working interest. Efforts are being made to re-evaluate the possibility of any leftover reserves in existing reservoirs and to evaluate the upside exploratory potential of the fields.

Training and Development

As a leading Exploration & Production Company of Pakistan, OGDCL is committed towards professional grooming of its human resource. The objective of continuous training and development of these professionals is achieved through Oil and Gas Training Institute (OGTI) which works closely with various departments of the Company as well as with other E&P companies to help meet their training requirements. The training programs are developed and delivered by renowned trainers from within OGDCL as well as experts from the local and foreign petroleum industry. In addition to technical training, OGTI also imparts education and training in Health, Safety & Environment, Information Technology and Petroleum Management.

During the year 2010-11, 69 training programs were conducted at OGTI. More than 800 professionals from OGDCL and 58 from other E&P companies benefited from these programs. These programs included courses on technical subjects, Health, Safety & Environment, Information Technology and Petroleum Management.

OGTI also arranges many tailor-made training programs for professionals of E&P companies working in Pakistan. On request of SAARC Energy Center, OGTI arranged a special workshop on "Geophysical Techniques for Exploration of Natural Resources" for professionals of SAARC countries. Similarly, two highly informative workshops on "Sequence Stratigraphy" and "Seismic Stratigraphy" were organized for geoscientists of OGDCL and other E & P companies. Dr. Ali Raza Jaffri, an expert in Stratigraphy working with VNG Norway, conducted these workshops.

A series of Petroleum Industry orientation programs were conducted for groups of newly inducted professionals of OGDCL. The programs included two days introductory sessions on Exploration, Drilling and Production Operations, while on third day a session on

“Effective Communication Skills” was conducted. Seventy (70) participants from technical and non-technical departments attended these orientation programs.

A workshop on Petroleum Industry Operations and their impact on environment was also organized for professionals of Environmental Protection Agency (EPA) of Khyber Pakhtunkhwa.

consisting of Information Security Policies and Procedures. The document is currently under review. During the development phase various training programs were conducted for nominees of different departments on ISO-27001 to create awareness about the security of information assets and to prepare them for planned implementation of ISMS within the Company.



Seismic Stratigraphy Course Participants with GM (OGTI).

Information Technology

To ensure an effective Information Technology (IT) setup that supplements and supports the organizational strategies and operations, an Information Technology Steering Committee was formed through promulgating a formal policy. The committee consists of Head of Departments from all major areas of business operations. The Committee will serve as a focal point for approving and monitoring all IT initiatives within the Company. The Committee will ensure that all IT initiatives are business driven and are in-line with the Company's overall strategic direction.

As part of an exercise to implement office automation, a Leave Management Module was developed for Human Resource Management System (HRMS). This is an electronic workflow based system where employees will be filing leave applications on-line and the request will pass through an approval process using the organizational hierarchy. In the first phase the system is being implemented at Head Office and later it will be extended to all offices country-wide.

Also an Information Security Management System (ISMS) for the Company has been developed. The objective of this system is to adopt international best practices related to Information Technology based on Information Security Standard ISO-27001. A comprehensive security framework has been drafted

Health, Safety and Environment

The Company is committed to attain the highest standards in health, safety and environment performances and in pursuit of good governance of the same, the corporate HSE sustained compliance of HSE System during 2010-11. With the highest concern and commitment for Health, and Safety of employees, customers, contractors & communities, compliance of best HSE practices was well observed by various regulatory bodies during the entire year. Similarly our establishments and premises at various locations along with seismic parties, drilling rigs, production facilities, processing plants, engineering departments, etc. exhibited the salient features of a sound HSE System.

Due to our sustainable mechanisms pertaining to safety of workforce, environment and society a summary of the recent developments and achievements across the Company is given below:

- 1 There is yet another accomplishment on a larger canvas that the Company has won the NFEH Excellence Award (2011) endorsed by United Nations Environmental Program for the third consecutive year. This is mainly due to the committed business environmental responsibility & leadership demonstrated by OGDCL, which has set in motion implementation of HSE Systems at key operational sites.

1 In year 2010-11, certification of Dhodak and Qadirpur operating fields for ISO 14001:2004 and OHSAS 18001:2007 standards were successfully maintained and Business Assurance Wing of M/s DNV through periodic audits endorsed that the HSE System at these two key locations remains at par with the requirements of HSE management standards.

1 In compliance with legislative requirements, OGDCL contacted the short-listed consulting firms to conduct various Initial Environmental Examination (IEE) / Environmental Impact Assessment (EIA) studies e.g. Gurgalot Block, Nashpa Block, Fateh Jang Block, Toot Block, Bitrism Block, Sinjhoru Block, Maru-Reti gas field, Jhal Magsi project etc. A few environmental studies like Sheikhan Development Project, Channi Pull Block etc. were carried out utilizing internal resources and the reports were timely submitted to the relevant Environmental Protection Agencies for acquisition of NOC to formally commence these project activities.

1 In order to promote the best HSE practices and acknowledge the existing ones to promote a healthy work-style, to provide better communication opportunities on the issues of work and safety and to enable learning through fun among the employees, HSE awareness events are being arranged as a regular corporate feature now in the Company. During 2010-11, this event was organized with zeal and fervor at Qadirpur Gas Field.

1 The Company believes that HSE training and motivation is the first line of defense against accidents. The company has adopted a systematic and proactive behavioral program that provides appropriate HSE training and encourages participation of all employees to safely perform their duties with the

objective of preventing occupational injuries, illness, losses due to accidents, and protection of environment. In this perspective, an exclusive 10-day HSE training program on "Implementation of Health, Safety and Environment System: A Practical Roadmap for field HSEQ Officers" was arranged during November 2010 at OGTI, Islamabad. HSEQ officers from various operating fields, drilling rigs and seismic parties attended the sessions spread over two weeks with the objective to orchestrate the implementation roadmap based on the ISO 14001 and OHSAS 18001 standards.

Energy Conservation

Oil and Gas are major components of the Pakistan's Energy Mix as these are currently fulfilling more than 80% of the Country's primary energy needs. The Company is aware of the Country's needs for conservation to bridge the gap between energy supply and increasing demand. The Company has successfully installed permeate compressors after necessary modification in gas circuit to reduce tons of CO₂-equivalent emissions due to flaring of gas from its Qadirpur Plant. Previously, permeate gas from the Qadirpur gas field was being flared resulting in large amounts of carbon emitted into the atmosphere without any use of the associated energy. The permeate gas is now being utilized in a modern combined cycle power plant in the private sector. The electricity so generated is supplied to the national grid utilizing the gas which would otherwise has been flared / vented into the atmosphere. In addition, being an ISO 14001 certified site, management has introduced various protocols to conserve energy in the process operations and other routine activities at Qadirpur. The major parameters include monitoring of fuel (oil / gas) and chemical usage / consumption and preemptively



Proficiently conducting firefighting drills.

addressing / troubleshooting heating and cooling systems. Plans are being developed to ensure prudent utilization of these natural / energy resources at other key installations.

Management Objectives and Strategies

An objective analysis of the target and achievements are set out in the Company's Strategic Plan which is developed on five (5) year basis and updated / revised on yearly basis. It reviews the Company's internal strengths and weaknesses and identifies the actual threats and opportunities, presents a broad framework relating to OGDCL's vision, mission, core values and goals. The main objective of OGDCL's strategic planning is to review & implement the strategic intent of the Company, define the departmental targets & assess their respective contributions to the achievements of corporate objectives and develop organization wide consensus on future direction and provide a single perspective for OGDCL's future communication with stakeholders. Due to these guided objectives, the Company is in a position to embrace long term benefits like inculcating management buy-in, ensuring the optimal use of the organization's resources by focusing on key priorities and providing a base from which the progress can be measured and sustained.

The economic stability of the developing countries like Pakistan depends upon the growth of the energy sector to influence social prosperity and long term planning for the utilization of domestic energy resources. Pakistan has been facing an unprecedented energy crisis since last few years. Its current energy demand exceeds its indigenous supplies, fostering dependency on imported oil that places a substantial burden on the economy of the Country. The Company has a strong vision and mission to contribute to E&P sector to help enhance energy security of Pakistan. With the formidable presence in the length and breadth of the country, the Company is looking beyond geographic boundaries for E&P opportunity. It plans to actively pursue overseas ventures. With technical prowess in the onshore Exploration and Production, it has changed focus to a more challenging area that is offshore exploration and tight gas.

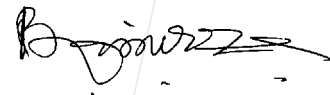
The Company plans to optimize its concessions portfolio to support aggressive exploration activities, which in turn will ensure continuous reserves additions. The Company is also looking at seamless development of

new discoveries in shortest possible time which will add to the production base of the Company. Efforts are continuing towards formulation of joint ventures with leading E&P companies both within the country and abroad.

Acknowledgment

I am grateful to our shareholders, customers, suppliers, contractors and joint venture partners for their ongoing relationship and continuous support towards the progress of the Company.

I am also proud of all the employees of the Company for their dedication and determination and appreciate their contribution towards the result achieved by the Company during the year. I would also like to thank the Board Members for their untiring efforts in directing the Company's course and maintaining its growth.



(Basharat A. Mirza)
Managing Director & CEO

12 August 2011