Pakistan Petroleum Limited

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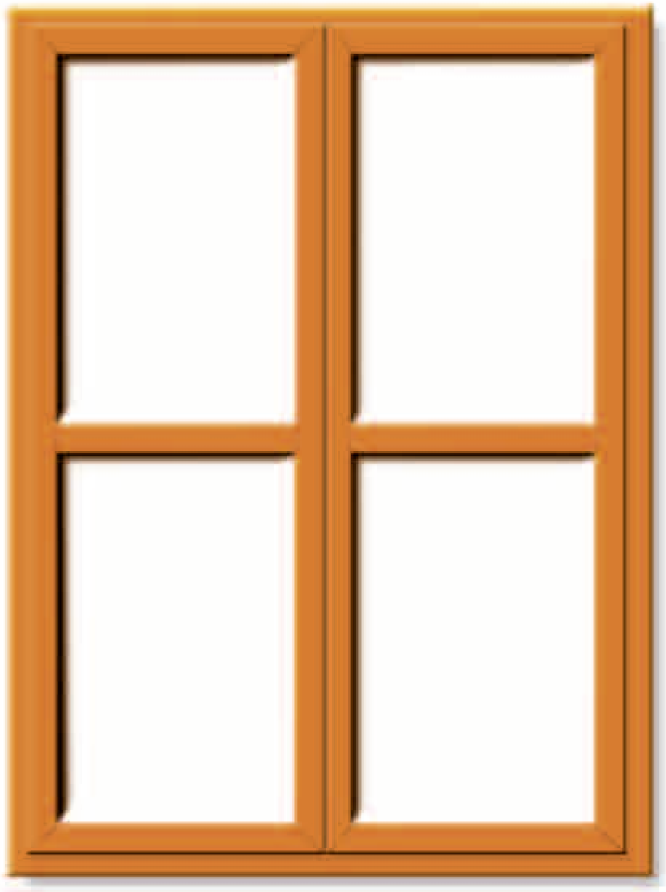
Annual Report
2007



Envisioning Tomorrow

Pakistan Petroleum Limited

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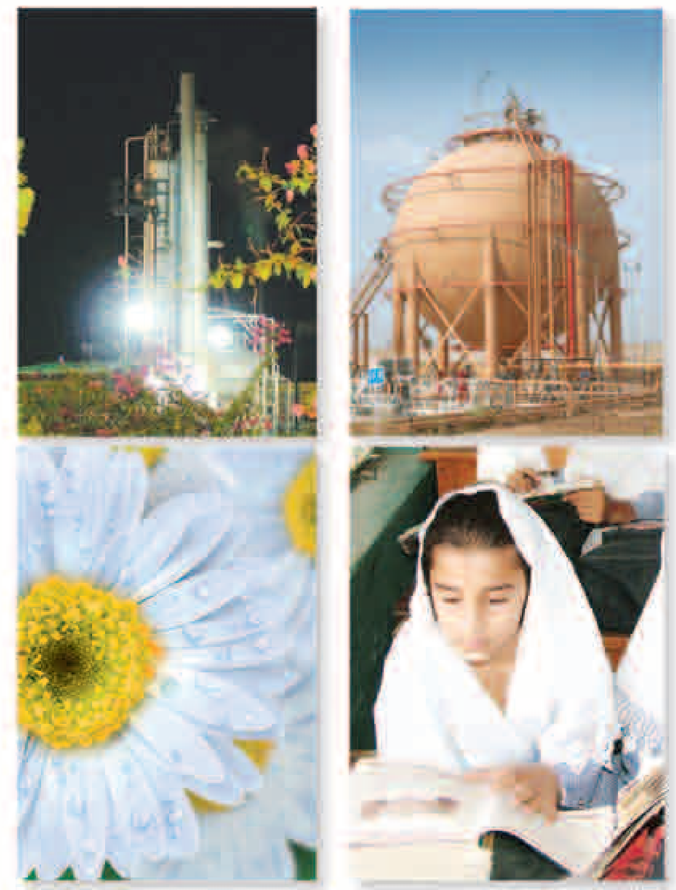
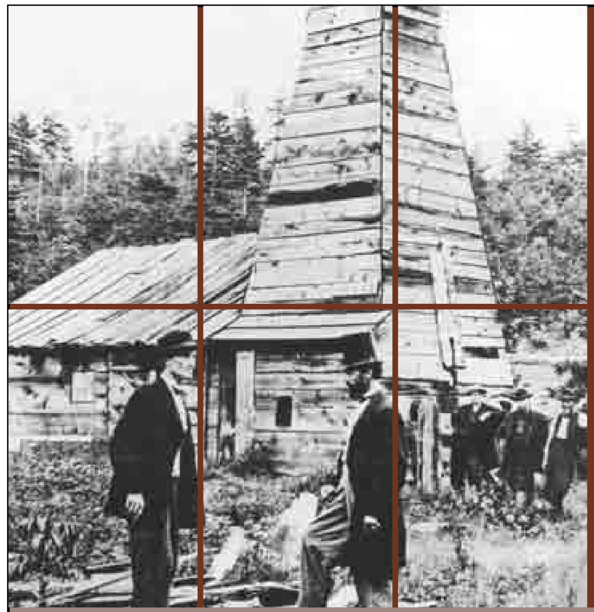


PPL - Envisioning Tomorrow

Reliable, affordable and secure energy resouces are vital to the continued prosperity of the country. We endeavour for a Tomorrow that supports economic progress, enhances social development and protects the environment for generations to come.

We at PPL are aware of the challenge in securing the country's energy future. The challenge for a Better Tommorrow lies not only in finding new energy resources but developing the same safely, economically and in an environmental friendly responsible manner.

We believe there is a cause for optimism about the country's energy future - an optimism grounded in the earth's enormous resource endowment, our historical success in meeting growing demand and belief that it is possible to get the fundamentals in place to enable the Company to continue doing so in the future.



Story of Oil & Gas

Beginning of a New Era

This is the Story of Curiosity – The Story of a Medicine-Discovery – The Story of Problems – The Story of Costly Blunders – The Story of Individual Endeavour – The Story of a Never Ending Story

The Story that Changed the World Forever...

The Viscous Black Fluid

From lamp oil to gasoline, plastics to pharmaceuticals, the oil industry has powered progress and transformed the world. It all began in the United States in 1859, in northwestern Pennsylvania, where Edwin Drake drilled the first successful commercial oil well. The story has deep roots in the history of mankind.

The beginning of the industry can be marked from 1853, when George Bissell, a lawyer by profession, passing through western Pennsylvania saw something of the primitive oil-gathering industry with its skimmings and oil-soaked rags. Soon after, he visited the Dartmouth College, when in a professor's office he spied a bottle containing the sample of the same Pennsylvania rock oil. He knew that rock oil were being used as patent and folk medicines to relieve everything from headaches, toothaches, and deafness to stomach upsets, worms, rheumatism and dropsy, it was called the "Seneca Oil".

Bissell knew that the viscous black liquid was flammable and can be used as an illuminant. Based on this principle he engaged Yale's Professor Silliman to analyze the properties of oil both as an illuminant and lubricant. The report was released in April 1855 and was nothing less than "a turning point in the establishment of the petroleum business". Thus the first oil company was formed by the name of "Pennsylvania Rock Oil Company".

The Company hired E.L. Drake and to impress and earn respect of the backwoodsmen in Pennsylvania he was given the title of "Colonel" E.L. Drake, which he certainly was not. He was of the opinion that the oil can be obtained in large quantities by Boring for Salt Water. In the spring of 1859, Drake started drilling the world's first well for oil. On Saturday afternoon, August 27, 1859, at sixty-nine feet, the drill dropped into a cervice and then slid another six inches, to their excitement they saw a dark fluid floating on top of the water. He had hit oil – the most important source of energy, the beginning of the "Hydrocarbon Age".

The Light of the Century

January 10, 1870 marked the beginning of the modern oil industry. "Standard Oil" was formed and over a period became a giant controlling both upstream and downstream of American business, the exporter and provider of 'new light' to the world. Eventually, at least 90 percent of the exported kerosene passed through Standard's hand. The Standard Oil Company was however unaware of the emerging competition from Russia's distant and inaccessible part of the empire, which would foreclose the Russian market to American Oil. Baku was the territory of the "eternal pillars of fire" worshiped by the Zoroastrians. Those pillars were, more prosaically, the result of flammable gas, associated with petroleum deposits, escaping from the fissures in porous limestone. The first wells in Baku were drilled in 1871-72, and by 1873, more than twenty small refineries were at work.

The Beginning of the Boom

The phenomenon of gusher came from a discovery in Beaumont, Southeast Texas, where drilling commenced in 1899, but the first efforts failed. Drilling for the second well started in the autumn of 1900. The driller fought their way through the hundreds of feet of sand that had frustrated all previous

efforts. At about 800 feet, oil showed. They thought that the well would produce around 50 barrels a day. On January 10, 1901, the memorable happened, mud began to erupt from the well, first with the sound of a canon shot and then with a continuing and deafening roar. Gas started to flow out and then oil. Lucas 1 on Spindletop was flowing not at fifty barrels per day, but at as much as seventy-five thousand barrels per day and marked the beginning of Texas oil boom.

In the same year, Englishman, William Knox D'Arcy, obtained a 60 year oil concession from the Shah of Persia. Drilling began in 1903, but the drilling operations faced both technical and financial difficulties. The situation went worse in 1905 when no oil was discovered and D'Arcy was out of cash, at that point of time Burmah Oil Company (founded in Glasgow, Scotland in 1886) came as a savior to D'Arcy and provided the much needed investment and management expertise. After much concentrated efforts on the night of May 25, 1908 at around 4.00 a.m. a gusher of petroleum rose perhaps fifty feet above the top of the drilling rig. At last oil had been struck in Persia.

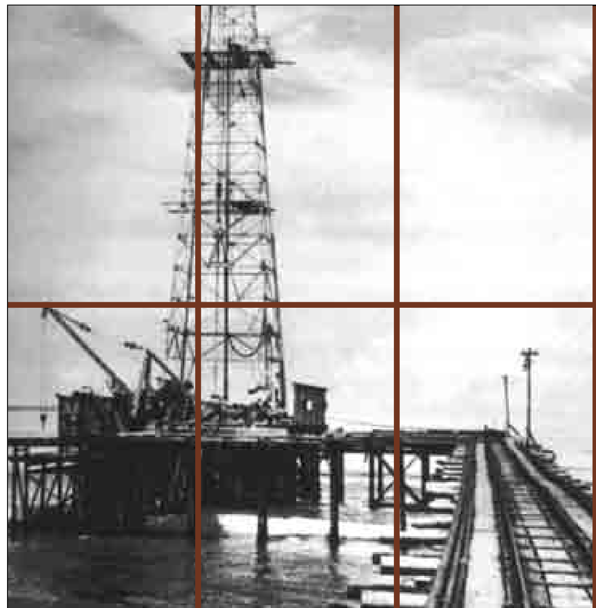
Back in United States in November of 1906, the Roosevelt Administration brought suit against Standard Oil, charging it under the Sherman Antitrust Act of 1890 with conspiring to restrain trade. After almost five years the Supreme Court ordered the dissolution of Standard Oil. The Standard Oil was divided into several separate entities. The largest of them was the Standard Oil of New Jersey, with almost half of the total net value; it eventually became Exxon. Next largest, with 9 percent of net value, was Standard Oil of New York, which ultimately became Mobil. Later both of them merged to form Exxon Mobil. There was Standard Oil (California), which eventually became Chevron; Standard Oil of Ohio, which became Sohio and then American arm of BP; Standard Oil of Indiana, which became Amoco; Continental Oil, which became

Conoco; and Atlantic, which became part of ARCO and then eventually of Sun.

From 1914 to 1922, oil discoveries were made in Venezuela and Mexico, Oil Companies were going international and were looking for concessions to explore oil. Till the end of 1920, Middle East was still an untapped resource.

The Gushers of Middle East

In 1925 a joint geological expedition – representing Anglo-Persian, Royal Dutch and the American Companies arrived in Iraq. Drilling began in April 1927. One of the drilling sites was at Baba Gurgur, about six miles northwest of Kirkuk. There, for thousands of years, two dozen holes in the ground had been venting natural gas, which was always alight. At 3.00 a.m. on



Story of Oil & Gas

Beginning of a New Era

October 15, 1927, from a well known as Baba Gurgur Number – 1 in which the drill bit had barely passed fifteen hundred feet, a great roar was heard, reverberating across the desert. It was followed by a powerful gusher that reached fifty feet above the derrick. The well was flowing at around ninety-five thousand barrels per day.

In Middle East, initial efforts to obtain concession were made by Major Frank Holmes in 1923, when he set up his headquarter for his oil campaign on the small island of Bahrain, just off the coast of Arabia. In late 1930's, Holmes joined hands with Standard of California known as Socal for drilling of wells in Bahrain. For this purpose another entity by the name of Bahrain Petroleum Company was formed. The company began drilling, a little over a year later, in October 1931 and on May 31, 1932, it hit oil. Petroleum had been discovered on the Arab side of the Gulf, the Bahrain discovery was a momentous event, with far wider implications.

Socal, after the Bahrain's discovery approached the Kingdom of Saudi Arabia for a concession in Al-Hasa and finally on May 29, 1933 the agreement was signed. The concession was good for sixty years and covered about 360,000 square miles and was the beginning of the oil era in Saudi Arabia.

Saudia Arabia was not the only country on the Arabian Peninsula in which oil interest was mounting. In order to curtail the price war both Anglo-Persian (British) and Gulf (American) formed a new fifty-fifty joint venture, it was called the Kuwait Oil Company. The agreement between the Joint Venture and the Government was signed on December 23, 1934, granting a seventy five year concession to the Kuwait Oil Company. The Kuwait concession was signed a year and a half after the Saudi one. By then, Socal was already busy at work in Saudi Arabia and formed the California-Arabian Standard Oil Company to hold the concession. The first several wells were all failures – either dry, at best, giving some small shows of oil and gas, but nothing remotely commercial.

Exploration in Kuwait had begun in 1935, the Burgan field in southeastern Kuwait was suggested as the most promising area, and on February 23, 1938 oil was struck, unexpectedly and with a surprisingly large flow. Meanwhile exploration next door in Saudi Arabia had met with repeated discouragement and the Socal board grew increasingly restive. They ordered the company to complete the work and wind-up their operations. But history repeated itself and finally in March 1938, few weeks after the Kuwait discovery, large quantities of oil were tapped in Arab Zone.

Another major discovery took place in this part of the world that had not one landlord, but two. The Neutral Zone was the two thousand or so square miles of barren desert that had been carved out by the British in 1922 in the course of drawing a border between Kuwait and Saudi Arabia. After all these discoveries Middle East region turned into the center of all attractions.

Alaska - The Cold Frontier

Another frontier opened up when Shell and Standard Oil of New Jersey began exploring in Alaska, but in 1959, after drilling what proved to be the most expensive dry hole up to that time, they suspended operations. In 1964, Jersey decided to re-enter Alaska. No success was made till 1966 and by winter of 1966 it looked as if Alaska, might, well end up in failure. ARCO, with Humble's participation, drilled a costly well and it was dry. However one more wildcat was planned at Prudhoe Bay on the North Slope. There was considerable doubt about whether to continue. In the spring of 1967, the ARCO-Humble venture began drilling what would certainly be the last wildcat if it failed. The well was dubbed Prudhoe Bay State Number I. On December 26, 1967, a loud, vibrating sound drew a crowd of about forty men to the well. The noise grew louder and louder – the roar of natural gas. To one geologist it sounded like four jumbo jets flying directly overhead. They had struck oil. In mid-1968, a "step-out well", drilled seven miles from the discovery well, confirmed that this was a great structure, a world-class oil field.

North Sea – The Offshore Frontier

Till this period of time oil had been discovered in North America, South America, Africa, Middle East and Far Middle East, now it was Europe's turn to enter the Black Gold market. On the waters of the North Sea, between Norway and Britian, was the biggest new play for the world oil industry, and its single greatest concentration of capital investment and effort. Phillips Petroleum from Bartlesville, Oklahoma, was among the disappointed companies who faced failures in the North Sea. Its interest had been piqued in 1962, but seven years later, in 1969, after a string of dry holes, the company was ready to call it quits. Including Phillip's own efforts, some thirty two wells had been drilled on the Norwegian continental shelf, and not one of them was commercial.

But in the grand tradition that stretched back to Colonel Drake's well in Pennsylvania in 1859, the first discovery in Persia in 1908 and Saudi Arabia in 1935, Phillips reluctantly decided to give it one more go – but only because it had already paid for the use of a rig, the Ocean Viking. The rig did its job, in November 1969, it made a major find on Block 2/4 in the Ekofisk Field, on the Norwegian side of the median line. Towards the end of 1970, British Petroleum announced the discovery of oil in the Forties field, on the British side, one hundred miles northwest of Ekofisk. It was a huge reservoir. A series of major strikes followed in 1971, including Shell and Exxon's discovery of huge Brent Field. The North Sea oil rush was on.

The Final Burst

More than a quarter of a century has elapsed since the final burst of major oil and gas discoveries took place during the seventies to eighties. In the process the whole world, from USA to Venezuela in South America, Russian Federation to Kazakhstan in Central Asia, Middle East to North and North West Africa all had its fair share of excitement through numerous discoveries of oil and gas.

World Oil and Gas Reserves

Crude Oil

About 80% of the world's remaining proven oil resources (about 1.2 trillion barrels) are located in just three regions: Persian Gulf and Middle East, Russia and the Caspian and North and West Africa. The world presently consumes around 84 million barrels of oil a day while the global oil supply hovers around 82 million barrels a day. The oil reserves of the Middle East and North Africa will be critical in meeting the world's growing appetite for energy as the greater part of the world's remaining reserves lie in that region. They are relatively underexploited and are sufficient to meet rising global demand for the next quarter of a century and beyond.

Natural Gas

Natural Gas was initially considered a burden while drilling in search of oil and normally flared at the well head. In 19^{th} century natural gas was almost solely used for street lamps. The technological advancement in the pipe line manufacturing during World War II gave the significant boost to the production and consumption of Natural Gas. At the end of 2006, world natural gas reserves were about 6,400 Tcf almost equal in size to the world oil reserves in energy equivalent terms. Natural gas reserves are also largely concentrated. About 60% of the reserves are held within Russian Federation, Iran, Qatar and the Central Asian States. Presently natural gas contributes around 23.7% of the world's primary energy consumption. Natural gas categorized as a clean fuel is making its presence felt in world energy scenario.

Exploration in Pakistan

Petroleum exploration in Pakistan began more than a century ago. The first well was drilled in 1866 at oil seepage of Kundal in the Mianwali District of Punjab Province, right after seven years of World's first well. The first commercial success came with drilling of Khaur-1 by Attock Oil Company in 1915, on a surface anti-cline in the Potohar Basin. After independence, in 1949 Pakistan Petroleum (Production) Rules were introduced. After promulgation of the Rules, Attock Oil Company and Burmah Oil Company established Pakistan Oil Fields and Pakistan Petroleum Limited (PPL), respectively, as their subsidiary. PPL made the first major gas discovery in Pakistan in 1952 at Sui with estimated recoverable reserves of about 11.7 Tcf of Gas (more than 2.0 Billion Barrels of Oil Equivalent). The historic event marked the beginning of PPL's journey for the quest of the hydrocarbons and was also the first major milestone of the oil and gas industry in Pakistan.

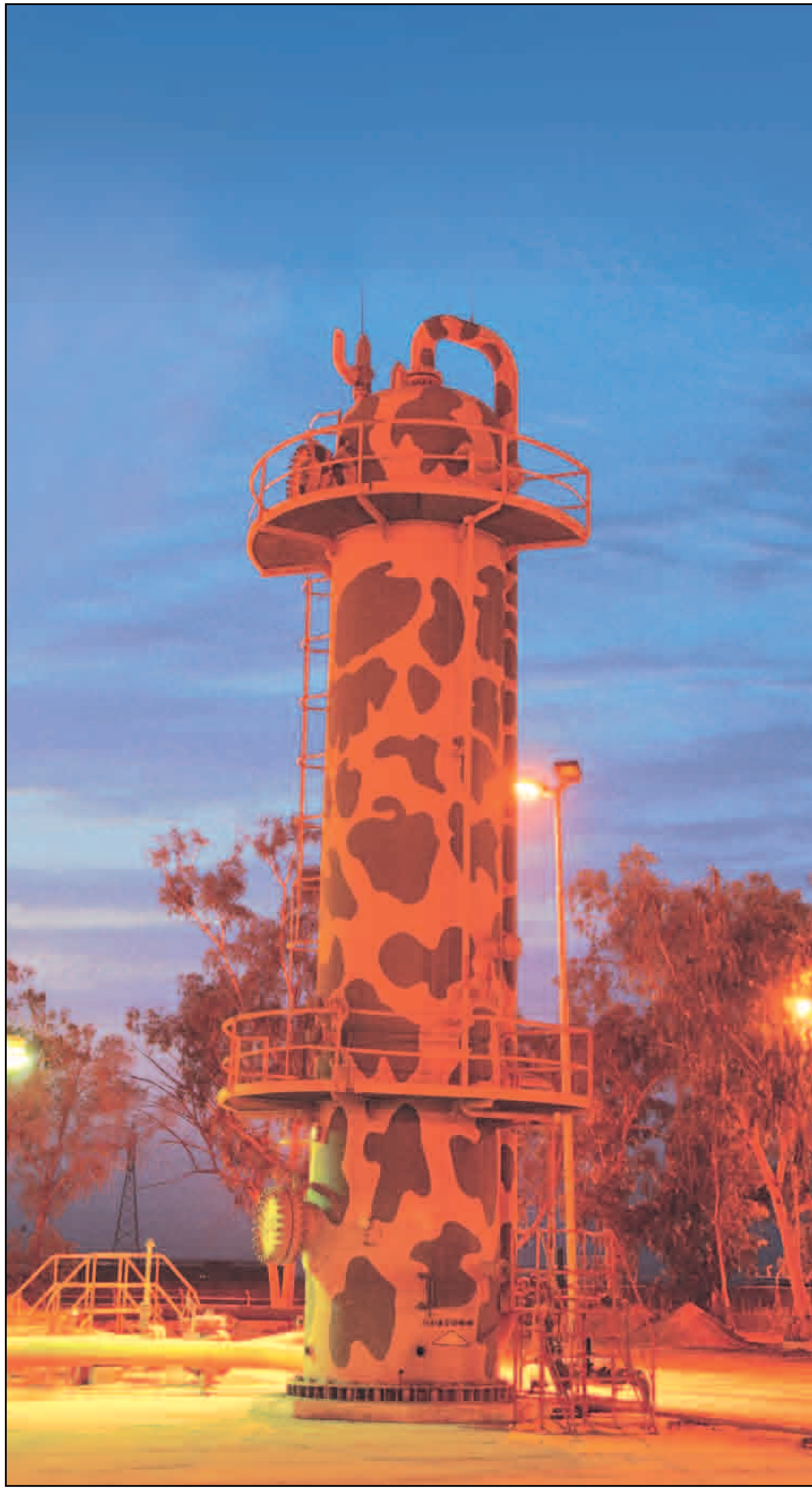
References:
- Various research articles
- The Prize by Daniel Yergin
- BP Statistical Review, 2007

Our Vision

To maintain PPL's position as the premier producer of hydrocarbons in the Country and at the same time make a strategic transition to become an international Company, exploiting oil and gas resources beyond the borders of Pakistan, resulting in value addition to shareholders' investment and to the nation as a whole.

Our Mission

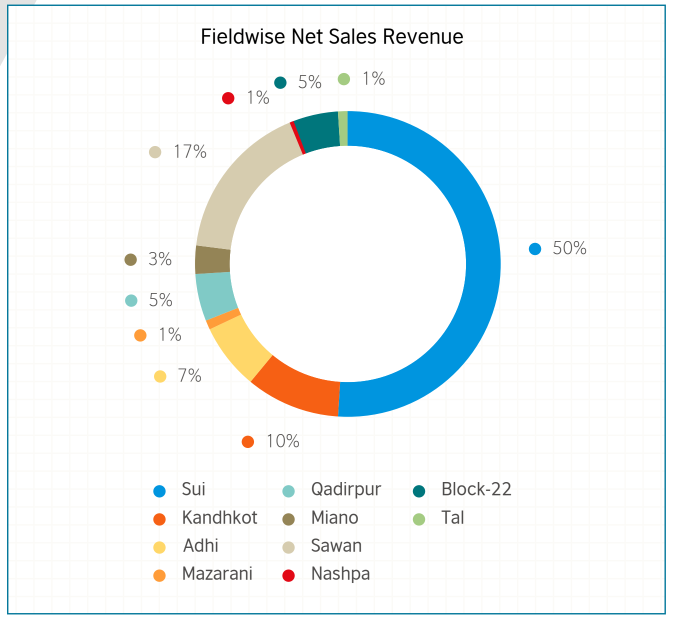
To optimize hydrocarbon production and pursue an aggressive exploration program in the most efficient manner on the local as well as international horizons through a team of professionals utilizing the latest developments in the exploration and production technology and maintaining the highest standards of health, safety and environment protection.

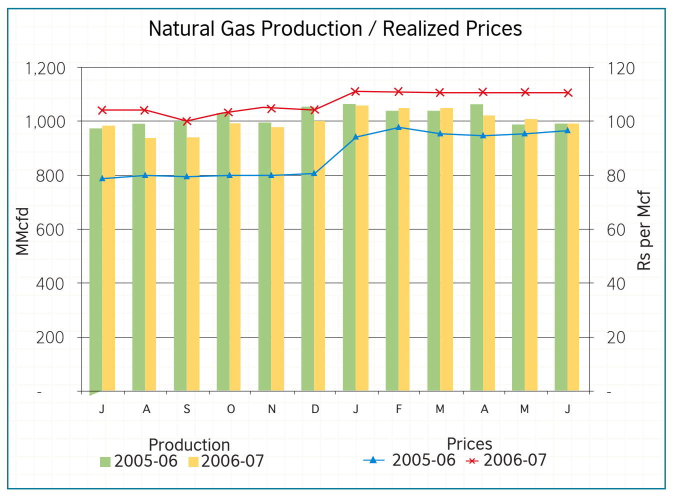


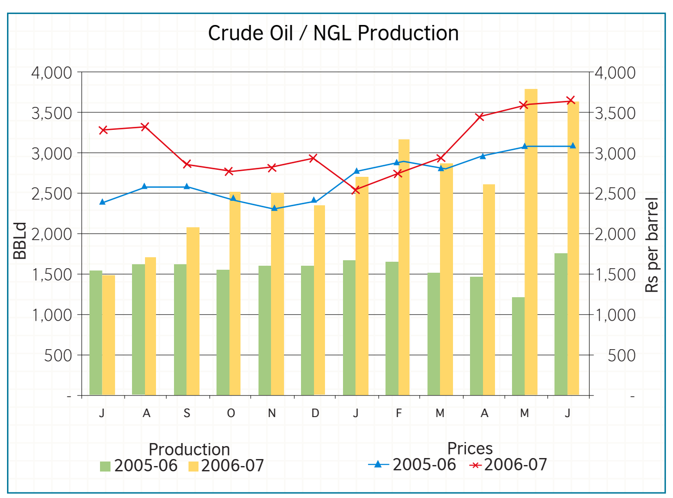
Contents

Highlights of the Year

- Sales Revenue increased by 21% to reach Rs 38.4 billion.
- Profit before tax increased to Rs 24.4 billion representing 21% growth over previous year.
- Profit after tax increased by 25% to Rs 16.8 billion.
- Three discoveries; one oil and gas discovery at Mela-1 well (Nashpa Block) and two gas discoveries Latif-1 (Latif Block) and Tajjal-1 (Gambat Block) were made.
- Testing of another exploratory well in PPL operated Hala Block (Adam X-1) has been completed and the results are encouraging while Mamikhel-1 well in Tal Block is being sidetracked to evaluate updip potential.
- The first exploratory well Mela-1 at Nashpa Block completed as oil and gas producer and Extended Well Test production commenced.
- The Company's efforts in International Exploration met with success with the award of Block-29 in Yemen to PPL/OMV (Operator) Joint Venture.
- Additional Processing Facilities Phase II at Adhi field successfully commissioned more than doubling the production capacity of the field.
- The Plant Debottlenecking Project successfully completed at Sawan gas field.
- SUL Compression Project Phase II at Sui gas field substantially completed and two out of three compressors commissioned.
- Engineering, Procurement, Construction and Commissioning (EPCC) Contract for Wellhead Gas Compression Project at Kandhkot field awarded to China Petroleum Engineering and Construction Corporation with commencement of activities on the project.







Company Information

Board of Directors

Mr. M.A.K. Alizai - Chairman
Mr. S. Munsif Raza - Chief Executive/Managing Director
Mr. S.R. Poonegar
Mr. Sajid Zahid
Mr. Shaukat Hayat Durrani
Mr. Pervaiz Kausar
Mr. Jalaluddin Qureshi *
Mrs. Roshan Khursheed Bharucha
Mr. Rashad R. Kaldany
(Alternate Mr. Nadeem Siddiqui)

* expired on 23 August, 2007

Company Secretary

Mr. M. Yaqub, FCA

Auditors

M/s Ford Rhodes Sidat Hyder & Co.

Registered Office

PIDC House,
Dr. Ziauddin Ahmed Road,
P.O. Box 3942,
Karachi-75530.

Bankers

ABN Amro Bank (Pakistan) Limited
Allied Bank Limited
Askari Bank Limited
Bank Al Falah Limited
Bank Al-Habib Limited
Citibank N.A.
Deutsche Bank A.G.
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
National Bank of Pakistan
PICIC Commercial Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Shares Registrar

Ferguson Associates (Pvt.) Ltd.
4th Floor, State Life Building No.2-A,
I.I. Chundrigar Road,
Karachi-74000.

Legal Advisors

Surridge & Beecheno

Objectives and Core Values

- Recognize that Leadership, Empowerment and Accountability are essential for corporate success.
- Pursue the Highest Standards of Ethical Behavior and Integrity.
- Consider our people as the most important resource.
- Value creativity and innovation.
- Are committed to excellence in all spheres of performance.
- Work as a Team and advocate Teamwork.
- Respect the Environment and remain committed to its protection.

Objectives and Core Values

Business Conduct and Ethics

It is a fundamental policy of Pakistan Petroleum Limited (PPL) to conduct its business with honesty, integrity and in accordance with the highest ethical and legal standards. The Company has adopted comprehensive Codes of Business Conduct and Ethics (Codes) for members of the Board of Directors and Employees. The Codes provide guidance to help Directors/ Employees recognize and deal with specific situations that may arise and foster a culture of honesty, accountability and high standards of personal and professional integrity.

The Company is a signatory to the United Nations Global Compact, a voluntary charter to make this world a better place and help protect the environment. The main goal of the charter is to disseminate the practice of ten basic principles encompassing protection of Human Rights, elimination of all forms of discrimination of employment and occupation, promotion of greater environmental responsibility, elimination of all forms of unethical practices and promotion of transparency in all spheres of activities. These principles have been adopted to serve as broad guidelines for the Company to demonstrate its commitment to universal values and readiness to act as a good corporate citizen.

Salient Features of the Code for the Directors

- Each Director must avoid any conflict of interest between the Director and the Company. Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Company, should be disclosed promptly.
- Directors are prohibited from taking for themselves personally opportunities related to Company's business; using Company's property, information or position for personal gain; or competing with the Company for business opportunities.
- Directors should maintain the confidentiality of information entrusted to them by the Company and any other confidential information about the Company that comes to them, except when disclosure is authorized by the Chairman of the Board or legally mandated.
- Directors shall endeavor to deal fairly with the Company's customers, suppliers, competitors and employees.
- Directors shall comply with laws, rules and regulations applicable to the Company including insider trading laws.

Specific Guidelines for Employees

- Employees must not engage in activities or transactions which may give rise, or which may be seen to have given rise, to conflict between their personal interests and the interest of the Company.
- Employees are expected to safeguard confidential information and must not, without authority, disclose such information about Company activities to the press, to any outside source or to employees who are not entitled to such information.
- No funds or assets of the Company may be contributed to any political party or organization or to any individual who either holds public office or is a candidate for public office except where such a contribution is permitted by law.
- Bribes or other payments, which are intended to influence a business decision or compromise independent judgment, are strictly prohibited.
- All funds, assets, receipts and disbursements must be properly recorded in the books of the Company.
- Every employee at work must take reasonable care for the health and safety of himself/herself and others who may be affected by his/her acts or omissions at work; and co-operate with the Company in its efforts to protect the health and safety of its employees and visitors.
- Accepting gifts that might place an employee under obligation is prohibited. Employees must politely but firmly decline any such offer.
- Alcohol in any form and use of drugs, except under medical advice, is prohibited at all work-sites/ locations.
- It is the policy of the Company to promote a productive work environment and not to tolerate verbal or physical conduct by any employee that harasses, disrupts, or interferes with another's work performance or that creates an intimidating, humiliating, offensive or hostile environment.

Business Conduct and Ethics

Profile of the Board of Directors

M.A.K. Alizai
Chairman

Mr. Alizai joined the PPL Board in April 1993 and is the Chairman of the Board since June 2003. He also chairs the Board Operations and Finance and the Human Resource Committees.

Mr. Alizai did his Masters in Economics from the Punjab University. He has over fifty four years of professional experience, out of which about twenty years were in Pakistan holding several senior positions in various spheres of the petroleum sector and the economy including Managing Director of Sui Northern Gas Pipelines Limited and the Chairman of West Pakistan Industrial Development Corporation. During this period, Mr. Alizai represented Pakistan on the Council of the International Gas Union for some 5 years from 1968 to 1972. Mr. Alizai was a director of the Petroleum Institute of Pakistan (PIP) from 1967 to 1970 and its Chairman for 1971 and 1972. He was also a director of the Hydrocarbon Development Institute of Pakistan (HDIP) from 1970 to 1972.

Mr. Alizai joined the IFC in early 1973 and worked for the World Bank Group in various senior positions which included the Director of Eastern, Southern and Central African regions as well as Nigeria for over 12 years and the Director of Oil, Gas and Mining Department, with responsibility for IFC's investments in these sectors on a global basis for some five years. He also acted as Advisor to the Prime Minister on a special assignment for rejuvenating the petroleum sector and was instrumental in formulating the petroleum policies which legally went into effect on October 1, 1993 and was adopted by the successor government in 1994. After his retirement from the World Bank Group at the end of 1996, he continued his affiliation with the IFC in the capacity of Senior Advisor which he relinquished in June 2003. Mr. Alizai also served on the parent Board of Premier Oil Plc, UK, for over 9 years from March 1997 until July 2006.

Upon retiring from the Board, Premier have retained his services as Senior Advisor to the Chairman and the Board of Directors.

Mr. Alizai currently serves on the Board of TransAsia Refinery Limited.

S. Munsif Raza
Chief Executive / Managing Director

Mr. S. Munsif Raza is the Chief Executive and Managing Director of the Company since September 1997. He is also a member of the Board Human Resource and Board Operations and Finance Committees.

Mr. Raza graduated in Petroleum Engineering from Baghdad University. After a brief stint in the Middle East, he joined the Company as a Production Engineer in 1970. He has extensive experience in Reservoir / Production Engineering and Project Management. He has attended numerous technical programs including Advance Management Courses at the Asian Institute of Management, Manila and Kellogg School of Management at Northwestern University, USA. Before appointment as Managing Director, he served the Company in different capacities including as head of various Technical Departments, Manager Sui, General Manager Production and Deputy Managing Director.

Taking cognizance of the rather stagnant exploration activities during the past decades, Mr. Raza, on taking over the reign of the Company in 1997, put PPL back on an aggressive exploration track and took effective steps towards production maximization from the existing fields and discoveries. During his stewardship, PPL's exploration portfolio expanded manifold within the country and significant progress was made in gaining a foothold in the international arena. The extensive exploration efforts undertaken during the past decade resulted in several discoveries with substantial reserve addition. Fast track development of the discoveries and aggressive production maximization efforts also led to a steady increase in oil and gas production of the Company despite declining trend of its major asset "the Sui Field".

Mr. Raza is Chairman of Petroleum Institute of Pakistan and Chairman of the Board of Society of Petroleum Engineers, Pakistan Chapter. He is also a member of the Board of Governors of Lahore University of Management Sciences (LUMS).

S.R. Poonegar
Director

Mr. Poonegar joined PPL Board in April 2002. Presently he is also a Member of the Board Audit Committee.

Mr. Poonegar graduated in Development Economics from Syracuse University, USA. He is a retired civil servant and has held several high profile positions in the Government of Pakistan including Member Pakistan Public Service Commission, Secretary Ministry of Water and Power, Chief Secretary, Government of Balochistan and Director, Central Board of State Bank of Pakistan. In recognition of his contribution towards social development the Government of Netherlands awarded him Arasmus Medal.

Sajid Zahid
Director

Mr. Zahid joined PPL Board in March 2000. He is also the Chairman of the Board Audit Committee.

Mr. Zahid is a Barister-at-Law from Lincoln's Inn, London. He is a practicing lawyer in the High Court of Sindh and the Supreme Court of Pakistan with over thirty four years of experience in Banking and Corporate Laws on behalf of leading local and foreign organizations. He is a Joint Senior Partner of Orr, Dignam & Company, Advocates. He is also a Director of Habib Bank Limited, Sui Southern Gas Company Limited and the Chairman of The First MicroFinanceBank Limited, apart from being a member of the Banking Laws Review Commission of Pakistan.

Shaukat Hayat Durrani
Director

Mr. Shaukat Hayat Durrani is a Law graduate from the University of Punjab and joined District Management Group of civil service of Pakistan in 1977. He did post graduate diploma in Development Administ-ration from the University of

Birmingham, UK and Master of Science in Defence & Strategic Studies from Quaid-e-Azam University, Islamabad during his Senior Level Management course at National Defence College, Islamabad. He also attended several training courses in Pakistan and abroad including Executive Leadership Development Training Program at JF Kennedy School of Government, Harvard University, USA and "Finance for Non-Financial Directors" at Institute of Directors, London. Presently, he is serving as Additional Secretary, Ministry of Petroleum & Natural Resources. He has an extensive experience of working in different capacities with the Provincial and the Federal Governments for the last 30 years and had held several key positions including Additional Secretary (Economy), Prime Minister's Secretariat, Joint Secretary in various wings of Ministry of Finance & Economic Affairs and Secretary National Finance Commission of Pakistan.

He is also a Director on the Boards of Pakistan State Oil Company Ltd, Mari Gas Company Ltd, Inter State Gas Systems (Pvt.) Limited and Habib Bank Limited.

Pervaiz Kausar
Director

Mr. Pervaiz Kausar had his initial schooling at Cadet College Hasan Abdal and later took a degree in Civil Engineering from University of Engineering, Lahore. He joined Exxon Chemical now Engro Chemical in 1968 and had a long career with this company retiring in 2002. He held various positions in Marketing, Corporate and Manufacturing Divisions of the company and retired as Vice President Business Development. He was also elected to Engro Chemical Board and served as a Director till April 2003. As a member of Engro's Board and Management Committee, he played a key role in growth and diversification of the company.

He also served as Director on the Board of Oil & Gas Development Company Limited (OGDCL) and chaired its Board Human Resource Committee.

He is currently Chairman Pakistan State Oil Company Limited (PSO), a position he has held since June 2003.

He is a progressive farmer and is associated with various social welfare organizations.

Jalaluddin Qureshi
Director

Mr. Jalaluddin Qureshi joined PPL Board in October 2006.

Mr. Qureshi was a graduate in the disciplines of law and commerce from University of Karachi and held a Master of Science degree in Accountancy from Western Michigan University, USA. He was also a fellow member of Institute of Cost & Management Accountants of Pakistan.

He was serving as Financial Advisor for Ministry of Petroleum & Natural Resources and Ministry of Water and Power. He joined the Government Service (Accounts Groups) after qualifying competitive examination in 1974 and since then had served on many responsible positions in various Government Departments. He also had experience of working on deputation for over eleven years as member of top management of autonomous corporate organizations including Chief Financial Officer, Karachi Electric Supply Corporation and Pakistan Machine Tool Factory (Pvt.) Ltd.

He was also a Director on the Board of Oil & Gas Development Company Limited (OGDCL), Sui Southern Gas Company Limited (SSGCL), Sui Northern Gas Pipelines Limited (SNGPL), Karachi Electric Supply Corporation (KESC), Industrial Development Bank of Pakistan (IDBP) and Thar Coal Mining Co. (Pvt.) Ltd. and a member of the Board of Governors of Hydrocarbon Development Institute of Pakistan.

He ceased to be a Director of the Company consequent to his sudden demise on 23 August, 2007.

Roshan Khursheed Bharucha
Director

Mrs. Roshan joined PPL Board in October 2006.

She holds a Master of Arts degree in English. She had been a Member of Senate from March 2003 to March 2006 and a provincial minister in the Balochistan Government from June 2000 to December 2002. She also had held the position of Chairperson, Senate Standing Committee on Health, Member, Senate Standing Committee on Education, Science and Technology, Member, Senate Standing Committee on Sports, Culture, Tourism and Youth Affairs and Member, Senate Functional Committee on Government Assurances.

Mrs. Roshan is a social worker and had extensively worked in the areas of rehabilitation of special children, eradication of child abuse and bonded labour practices, empowerment of women, strengthening women for self-employment and providing them legal protection against social discrimination, encouraging youth participation in sports and establishment of Information Technology culture in Balochistan. She had attended many International and National Conferences on various topics having social significance.

She had been awarded Human Rights Award by Pakistan Human Rights, Lahore Social Work Award by Tarraqi-e-Niswan, Balochistan, Girls Guide Award and commendation from Mayor of Dallas, USA in recognition of her social works.

Rashad Rudolf Kaldany
Director

Mr. Rashad Rudolf Kaldany joined PPL Board in September 2003. He is presently serving as Director Infrastructure Deparment at International Finance Corporation (IFC).

Mr. Kaldany joined IFC in 1988 as an Investment Officer in the West Africa and Middle East Department and in 1990 was transferred to the Middle East and North Africa Department. From 1992 to 1994, he was Special Assistant to IFC's Executive Vice Presidents, Sir William Ryrie and Mr. Jannik Lindbaek. In 1994, he became Manager, Capital Markets Division of the Asia Department. In 1997, he was appointed Senior Manager, Office of the Vice President, Investment Operations.

Soon after that he was promoted to Director, South and Southeast Asia Department, based in New Delhi, India. Mr. Kaldany returned to headquarters in 2000 as the Director of Oil, Gas and Chemicals department, a joint department of IFC and the World Bank, which merged with the Mining Department in July, 2002.

Mr. Kaldany received a Ph. D. from Columbia University and an MBA from Stanford University.

Nadeem Siddiqui
(Alternate to Mr. Rashad R. Kaldany)

Mr. Nadeem Siddiqui is presently serving as International Finance Corporation's (IFC's) Resident Representative for Pakistan.

Mr. Siddiqui joined IFC in 1996 and had held positions of Senior Investment Officer for Southern Europe and Central Asian Republics and Investment Officer for Central Asia and Pakistan. During 2001 to 2003 he also served as IFC appointed Director on the Board of NefteBank in Western Kazakhstan, which was set up to provide financing mainly to companies rendering services to International Oil Companies.

During 1984 to 1996 he worked with Oil and Gas Development Company Limited in various senior level positions with the responsibility for corporate planning.

Mr. Nadeem Siddiqui holds Master degrees in Business Administration from Daniels School of Business, University of Denver, USA and Mechanical Engineering from Moscow State University, Russia.

Mohammad Yaqub
Company Secretary & Senior Manager
Corporate Finance

Mr. M. Yaqub is a fellow member of the Institute of Chartered Accountants of Pakistan.

He joined PPL in 1982 and has extensive exposure in the areas of Corporate Finance, Oil and Gas Financial Management, Project and Risk Management, Joint Venture, Privatization, Secretarial and related functions.

He has held various important and responsible positions during his career progression in the Company and presently holds the position of Senior Manager Corporate Finance and Company Secretary.

Board Committees

Board Operations and Finance Committee

The Board Operations and Finance Committee is composed of the following:

- Mr. M.A.K. Alizai - Chairman
- Mr. S. Munsif Raza
- Mr. Jalaluddin Qureshi

The Terms of Reference of the Committee include review of Annual Work Program, Budget, Financial Results and matters relating to operations of the Company. The Committee also reviews progress of all major projects and status of implementation of approved Work Program.

The Committee reviews and recommends for Board's approval matters relating to work programs and operational plans, major financial commitments, strategies for development of existing and new petroleum discoveries etc. The Committee also reviews the Company's strategic plan and long-term financial projections.

Two (2) Board Operations and Finance Committee meetings were held during the year.

Board Human Resource Committee

The Board Human Resource Committee is composed of the following:

- Mr. M.A.K. Alizai - Chairman
- Mr. S. Munsif Raza
- Mr. Shaukat Hayat Durrani
- Mrs. Roshan Khursheed Bharucha

Human Resource Committee is mainly responsible for providing policy guidelines regarding Organizational Plan, Employee Development Programme and Staff Compensations and Benefits plans, policies and practices. The Committee makes a periodic review of Competitive Compensation practices including evaluation of Staff Remuneration Policies prevailing in the industry.

It is also involved in recommending to the Board Company's staff succession planning and promotions of Senior Management Staff.

One (1) Human Resource Committee meeting was held during the year.

Board Audit Committee

The Board Audit Committee is composed of the following:

- Mr. Sajid Zahid - Chairman
- Mr. S. R. Poonegar
- Mr. Pervaiz Kausar
- Mr. Jalaluddin Qureshi

The Committee reviews the periodic financial statements and examines the adequacy of financial policies and practices to ensure that an efficient and strong system of internal control is in place. The Committee also reviews the audit reports issued by the Internal Audit Department and the compliance status of the observations.

The Terms of Reference of the Audit Committee are consistent with those stated in the Code of Corporate Governance.

Four (4) Audit Committee meetings were held during the year.

Management Team

Executive Committee

This Committee comprises of the Chief Executive / Managing Director, Deputy Managing Directors and the Functional Heads:

- Mr. S. Munsif Raza - Chairman

Members:

- Mr. Khalid Rahman
  Deputy Managing Director
  (Finance & Administration)
- Mr. Asim Murtaza Khan
  Deputy Managing Director (Technical)
- Mr. M. Iftikar
  General Manager Human Resources
- Mr. Manzur A. Manzer
  General Manager Corporate Services
- Mr. Anwar M. Moghal
  General Manager Exploration
- Mr. Fasih-uz-Zaman
  General Manager Projects & Technical Services

The Committee is vested with the responsibility of reviewing all operational aspects of the organization, advising improvements to operational policies and procedures and monitoring the implementation of the same. The Committee discusses management issues in broad spectrum and recommends policy formulation on short-term / long-term basis.

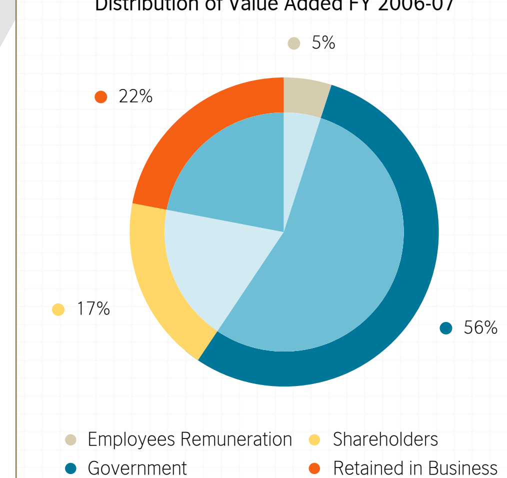
Statement of Value Addition

Statement of Value Addition

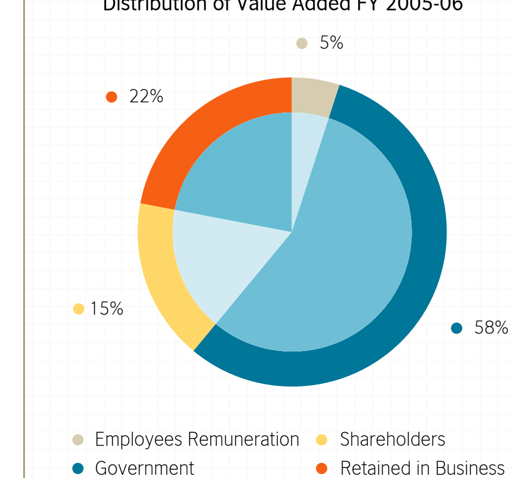
	2006-07 Rs million	%	2005-06 Rs million	%
Gross Revenue (including Gas Development Surcharge (GDS), Excise Duty and Sales Tax)	51,080	106	43,565	108
Less: Operating and Exploration Expenses	(5,196)	(11)	(4,504)	(11)
	45,884	95	39,061	97
Add: Income from Investment	2,284	5	1,394	3
Other Income	181	*	112	*
Less: Other Expenses	(52)	*	(96)	*
Total Value Added	48,297	100	40,471	100
DISTRIBUTED AS FOLLOWS:				
Employees Remuneration	2,403	5	2,173	5
Government as:				
Company Taxation	7,589	16	6,788	17
Levies (including GDS, Excise Duty and Sales Tax)	12,697	26	11,808	29
Royalty	4,577	9	3,745	9
Workers' Funds	2,597	5	1,062	3
	27,460	56	23,403	58
To Shareholders as:				
Dividend **	7,544	16	6,172	15
Bonus Shares **	686	1	-	-
	8,230	17	6,172	15
Retained in Business:				
Depreciation	1,363	3	1,267	3
Amortization	303	1	227	1
Net Earnings	8,538	18	7,229	18
	10,204	22	8,723	22
	48,297	100	40,471	100

* Negligible
** Includes final dividend and issue of bonus shares recommended by the Board of Directors subsequent to the year end.

Distribution of Value Added FY 2006-07



Distribution of Value Added FY 2005-06



Chairman's Overview

Your Company being the largest producer of Natural Gas (26% of the country's production) continues to play its vital role in bridging the demand/supply gap in the country's energy needs and is poised to further strengthen its position as a provider of clean and safe energy to meet the rising demand.

In my previous reports I had highlighted the strategic steps which the Company has taken to strengthen its operating and financial performance and I am glad to advise that this year the Company reaped the benefits of the extensive exploration efforts with three discoveries in partner operated Naspha, Gambat and Latif Blocks. In addition testing of one exploratory well drilled in PPL operated Hala Block (Adam X-1) has been completed and the results are encouraging. Another exploratory well in partner operated Tal Block (MamiKhel-1) has also shown encouraging results and is being tested for potential reservoir zones.

The Company's efforts to embark on International Exploration also met with initial success this year and the Company won an exploration Block-29 in Yemen in a joint bid with OMV (Operator). This year's achievements bear testimony to our determination to integrate, create value and strategically transit towards globalization of our operations. This coupled with the Company's focus on growth strategies, quality management, business improvement initiatives, implementation of sound policies and operational excellence at all areas of activity has placed us in a strong position.

The Company's impressive performance has translated into an all time record profit after tax of Rs 16.8 billion. Keeping in view the robust performance for the year the Directors of your Company have recommended a final cash dividend of Rs 6.5 per Ordinary share for the year 2006-07 over and above Rs 4.5 and Rs 3 per Ordinary share and Preference share respectively already paid as interim dividend in March 2007. In addition, for the first time ever, your Company has decided to issue bonus shares to the shareholders in proportion of one Ordinary share for every ten Ordinary shares held i.e.10%.

The outstanding financial results and operational performance this year have further strengthened our resolve to steadfastly pursue our vision of a better tomorrow.

The Company continues to expand its span of operations and during the year added six more areas including two offshore blocks in its exploration portfolio. The Company, as I see today, is positioned towards increasing its contribution in bridging the widening demand / supply energy gap and is fully geared to maintain its position as a premier E&P company in the country.

While I am pleased with the Company's progress in 2007, we remain constantly focused to ensure that this growth momentum continues in the future as well with added vigour. The Management is constantly on the look out to capture and invest in profitable opportunities, choosing the right strategic options to enhance shareholders' value.

On a final note, I would like to take this opportunity to express my sincere appreciation to the employees in the Company who have individually and collectively, through excellent teamwork, contributed to the success we have achieved this far.

(M.A.K. ALIZAI)
CHAIRMAN

Karachi
10 August 2007

Chairman's Overview

Managing Director's Outlook

The Company performed exceptionally well in 2006-07 and earned a record profit after tax of Rs 16.8 billion. Net cash generated from operating activities totalled Rs 13.6 billion which not only allowed the Company to finance its capital expenditure of Rs 4 billion from internally generated resources but also caters for future major investment plans. The return on capital employed was 42% which is consistent with the past years.

PPL's accelerated exploration efforts during past years also paid back handsome dividend when out of 10 exploratory wells drilled during the year three discoveries were made in partner operated Nashpa, Gambat and Latif blocks while testing of one exploratory well in PPL operated Hala Block have been completed and the results are encouraging. Another exploratory well in partner operated Tal Block (Mamikhel-1) has also shown encouraging results and testing of prospective zones is in progress. In addition two more exploratory wells i.e. Qadirpur Deep and Kahi Deep-X1 in Tal Block were suspended for further evaluation. The remaining three exploratory wells in S. W. Miano II, Tal (Sumari Deep-X1) and Kot Sarang Blocks were plugged and abandoned due to discouraging results.

The Company has also completed three major expansion projects during the year. The second LPG/NGL Plant at Adhi has been commissioned which has more than doubled the field production capacity. Phase II of the SUL Compression at Sui and the revamping of Sui power supply system were other two major projects completed this year. Kandhkot Well-Head Gas Compression Project, another major project to maintain the supply pressure at Kandhkot field was also initiated this year.

The Company is headed in the right strategic direction and have expanded its exploration portfolio not only within the frontiers of Pakistan but also outside the country with its successful bid for a block in Yemen in a 50:50 joint venture with OMV as operator. Presently, out of 242,714 sq. kms. area under exploration in Pakistan, PPL holds the second largest share covering 53,974 sq kms (more than 22%) in joint venture with other partners in 24 concessions both onshore and offshore.

The Company continues to follow an ambitious exploration and reserve acquisition strategy to replenish its depleting reserves, together with an aggressive plan for production optimization from the existing fields and discoveries. Company's dedicated teams are in the process of evaluating various national as well as international oil and gas exploration opportunities with a view to further expand the exploration portfolio. Over the next 10 years, the Company plans to carry out extensive exploration and development activities, which include acquisition of about 20,000 line km and 14,000 sq km 2D and 3D seismic, drilling of about 100 exploratory and 230 development wells and installation of compression and processing facilities at existing fields and new discoveries.

With extensive increase in the size of its exploration and production portfolio, the operating environment in the Company have become increasingly demanding with added emphasis on safe operating procedures. The Company recognizes safety as the key component of operational excellence, gives utmost importance to training of employees and contractors to enhance safety awareness and actively incorporates industry best practices in the overall operating setup.

The Company's accomplishments and present standing could not have been possible without the efforts of our employees who deserve full compliments. Our achievements have prepared us well for the challenging environment we foresee in the energy industry and provide proof of our ability to deliver results to our shareholders.

We remain committed to maintain our momentum and keep focused towards meeting the challenges ahead.

(S. MUNSIF RAZA)
CHIEF EXECUTIVE / MANAGING DIRECTOR

Karachi
10 August 2007

Managing Director's Outlook

Directors' Report

Your directors are pleased to present the Annual Report and the Audited Financial Statements of the Company for the year ended 30 June, 2007 together with the Auditors' Report thereon.

Profit and Appropriations

The Directors propose following appropriations out of the profit for the current year:

	2006-07 Rs million	2005-06 Rs million
Profit Before Taxation	24,356.770	20,189.533
Taxation	7,588.996	6,788.532
Profit After Taxation	16,767.774	13,401.001
Unappropriated profit as at 1 July, 2006/2005	19,258.982	12,315.879
	36,026.756	25,716.880
Appropriations during the year		
Final dividend for the year 2005-06 on Ordinary and Convertible Preference shares @ 55% (2004-05: 30%) and nil (2004-05: 5%), respectively	3,772.023	2,057.474
Transfer to Insurance Reserve	1,000.000	500.000
Transfer to Assets Acquisition Reserve	2,000.000	1,500.000
Interim dividend for the year 2006-07 on Ordinary and Convertible Preference shares @ 45% (2005-06: 35%) and 30% (2005-06: 30%), respectively	3,086.247	2,400.424
Balance as at 30 June, 2007/2006	26,168.486	19,258.982

Subsequent Effects

The Board of Directors of the Company in their meeting held on 10 August, 2007 have proposed the following:

	2006-07 Rs million	2005-06 Rs million
Transfer to Insurance Reserve	1,000.000	1,000.000
Transfer to Assets Acquisition Reserve	2,000.000	2,000.000
Final dividend on Ordinary shares @ 65% (2005-06: Ordinary shares 55%)	4,457.849	3,772.023
Issue of bonus shares in proportion of 1 ordinary share for every 10 ordinary shares held (10%)	685.823	-
	8,143.672	6,772.023

The Company's performance during the year in all areas of its activity remained exceptional. The Company successfully maintained the growth momentum developed over the past years and contributed immensely in meeting the country's overall energy demand.

The unprecedented exploration efforts of the Company for finding new reserves met with consecutive successes this year and three new discoveries were made in partner operated areas and one potential discovery each in PPL operated and partner operated blocks.

These new discoveries will go a long way in strengthening the hydrocarbon reserve profile of the Company together with sustaining the growing energy needs of the country.

The trend of consistent growth in Company's sales and profitability continued this year in line with previous years. The sales revenue of the Company increased to Rs 38.4 billion, an increase of 21% over the previous year. Numerous factors contributed to the increased revenue which included higher international crude oil prices; phased price increase under the Sui and Kandhkot Gas Price Agreement 2002 supplemented by increase in production particularly from Adhi field consequent to commissioning of Adhi LPG/NGL Plant II, increased production from Tal, Sawan and commencement of Extended Well Test production from Mela-1 discovery at Nashpa Block. The profit after tax of Rs 16.8 billion earned by the Company for the year was all time high, up 25% from the previous year's profit. The earnings per share of the Company rose to Rs 24.45 from Rs 19.54 in 2005-06.

The increase in field expenditure by 13% was mainly due to extensive exploration activities carried out during the year which included acquisition of seismic data in Tal, Umarkot, Rajar, Mithi, Kirthar, Offshore Indus M and N, South West Miano II and Tajpur Blocks, Geological fieldwork at Barkhan and Kalat Blocks and drilling of Exploratory wells at Tal, Kot Sarang, Hala and South West Miano II Blocks.

An amount of Rs 1.3 billion has been set aside for Workers' Profit Participation Fund as compared to Rs 1.1 billion last year. Other operating income increased by 1.6 times to Rs 2.4 billion mainly due to increase in financial income.

Directors' Report

Taxation for the year has increased by 12% primarily due to increase in taxable income.

During the year the liquid funds increased to Rs 22.3 billion due to the funds generated from operating activities. The increased liquidity will assist in meeting the future financing needs of the Company's aggressive exploration and development plans.

Final Dividend and Bonus Issue

The directors have recommended a final cash dividend on Ordinary shares @ 65% (2005-06: 55%) and issue of bonus shares in proportion of 1 Ordinary share for every 10 Ordinary shares held by capitalization of free reserves of the Company. Interim cash dividend on Ordinary and Convertible Preference shares @ 45% (2005-06: 35%) and 30% (2005-06: 30%) respectively was paid in March 2007.

Operations and Significant Events

PPL is one of the leading producers of natural gas in the country since 1955 and currently accounts for around 26% of the country's total natural gas production. Over the last 56 years of operations, the Company has played a crucial role in the augmentation of indigenous hydrocarbon resources to serve the country. It continues to strive to maximize its hydrocarbon reserves and optimize production in order to maintain its position as the premier exploration and production company in the country.

We are pleased to advise the following significant events during the review period:

Discoveries

During the year one oil and gas discovery at Mela-1 well (Nashpa Block) and two gas discoveries Latif-1 (Latif Block) and Tajjal-1 (Gambat Block) have been made. Activities are underway to appraise the discoveries while Extended Well Test production from Mela-1 at Nashpa Block has already commenced.

Two more exploratory wells, one in PPL operated Hala Block (Adam X-1) and another in Tal Block (Mamikhel-1) have flowed hydrocarbons. In view of encouraging result of Mamikhel-1, the well is being sidetracked to evaluate the updip potential, whereas, in Adam X-1, testing of other prospective zones is complete and the results are encouraging.

SUL Compression Project Phase II

SUL Compression Project Phase II at Sui gas field was substantially completed and two out of the three compressors have been commissioned. The third compressor is scheduled for commissioning early next year. The Project will extend the life of SUL reservoir and optimize future gas recovery from Sui gas field.

Adhi Additional Processing Facilities - Phase II

Engineering, Procurement, Construction and Commissioning (EPCC) activities for Additional Processing Facilities Phase II were completed and the Plant was successfully commissioned. Following commissioning, the performance test was carried out which has confirmed the design capacity of the Plant. As a result the production capacity of the field has now more than doubled.

Kandhkot Field Gas Compression Station

EPCC Contract for Kandhkot Wellhead Gas Compression Project was signed with M/s China Petroleum Engineering and Construction Corporation in March 2007. This includes installation of wellhead gas compression facilities at the field to maintain the contractual delivery pressure of sales gas while maximizing reserves recovery.

Performance during the year

Following is a comparison of current year's production with the previous year from PPL's 100% owned fields and its share from all operated and non-operated joint ventures:

	2006-07	2005-06
Natural Gas (Million cubic feet)	365,525	371,714
Crude Oil / NGL / Condensate (Thousand barrels)	1,031	653
LPG (Tonnes)	14,220	9,478

The production during the period under review, including share from joint ventures, averaged at 1,001 MMcfd of gas, 2,825 bpd of Oil / NGL / Condensate and 39 tonnes per day of LPG.

PPL Operated Producing Fields

Sui Gas Field (100% PPL)

The Sui gas field, country's oldest and largest gas discovery with original recoverable reserves of 11.7 Tcf, has served the country for over half a century and still remains an important source of energy for the country. The operations of the Sui gas field continued satisfactorily throughout the year. The volume of gas sales during the year from the field was 207,746 million cubic feet as against 215,972 million cubic feet in 2005-06.

Second stage High Pressure (HP) casing has been installed on two out of three SUL compressors to boost the declining wellhead pressure of SUL reservoir. Performance tests of the compressors have been successfully completed and the compressors are currently undergoing Reliability Guarantee Test. Work on third compressor is in final stages.

The revamping / up-gradation of instrumentation and controls for boilers and banks to improve the reliability of operations at Sui Gas Purification Plant is continuing. The electrical power generation and distribution systems at the field have also been improved for reliable power supply.

As an option for treatment of gaseous effluents from the Purification Plant, the Company is studying Carbon Emission Reduction (CER) by way of injecting acid gases into Habib Rahi Reservoir. One of the old Sui wells has been selected to carry out the injectivity test.

Kandhkot Gas Field (100% PPL)
Gas from the Kandhkot gas field is supplied mainly to WAPDA's Guddu Thermal Power Station and SNGPL. A nominal quantity is also supplied to SSGCL for Kandhkot Town. The volume of gas sales from Kandhkot field during the year was 48,370 million cubic feet as against 48,525 million cubic feet in 2005-06.

Work over of Kandhkot wells 9 and 5 were completed during the year. BHP survey aimed at updating field reserves was successfully carried out during April-May 2007.

EPCC contract for installation of Kandhkot Field Gas Compressor Station was awarded to China Petroleum Engineering and Construction Corporation (CPECC) in March 2007. CPECC has commenced work on detailed engineering of the project.

To increase the reliability of the existing production facility a new 130 MMscfd Standby Dehydration Unit is planned to be installed for operation in parallel with the existing Dehydration Units.

Adhi Field (PPL share 39%)
PPL / OGDCL / POL Joint Venture
Following is a comparison of current year sale with the previous year from Adhi Field:

	2006-07	2005-06
Natural Gas (Million cubic feet)	11,547	6,649
NGL / Crude Oil (Thousand barrels)	1,753	1,267
LPG (Tonnes)	36,358	24,360

The Adhi LPG / NGL Plant-II commissioned in September 2006 doubling the production from the field. The current production rates are 40 MMscfd gas, 4,500 bbls of oil and 130 Tonnes LPG.

As part of optimization of production capacity, hydraulic fracture treatment of Adhi well 18 (T/K) was successfully carried out which has enhanced the well deliverability by almost threefolds. It is planned to further extend the hydraulic fracturing campaign to other wells at Adhi.

As part of its' long term strategy, the Company intends to explore the subthrust prospect at Adhi for which geological / geophysical study has recently been completed.

Mazarani Gas Field (PPL share 87.5%)
PPL / GHPL Joint Venture
The total volume of gas sold from Mazarani to SSGCL during the financial year was 4,072 million cubic feet as compared to 4,344 million cubic feet during 2005-06.

Currently two wells provide the required feed for the plant. In order to maintain gas feed at optimum level, an additional well Mazarani-4 (L) was spud in June 2007. The drilling of the well was in progress until 10 July, 2007 when it was suspended by declaring Force Majeure due to unprecedented floods cutting off access to the field.

The Honourable President of Pakistan visited Sui in May 2007 and inaugurated a new terminal built by the Company at Sui Airport.

Partner Operated Producing Fields

BLOCK- 2768-3 (Block-22) (PPL share 35.5263%)
PPL / PEL / PEII / GHPL Joint Venture
(Operator PEL)
The total volume of gas sold from Block-22 for the year was 5,399 million cubic feet as compared to 7,181 million cubic feet in 2005-06. Block-22 is currently producing around 15 MMscfd from 4 wells namely Hasan X-1, Sadiq X-1, Khanpur X-1 and Hasan 2.

In order to enhance the recovery from the reservoir, drilling of Hasan-3 would commence by end September 2007. It is also planned to drill Sadiq-2 and Khanpur-2 wells during 2007-08 for meeting the gas sales targets and maximize recovery.

As per field development plan, a Compression Facility is planned to be commissioned during 2008-09. The Front End Engineering Design (FEED) study for field compression has been completed.

Sawan Gas Field (PPL share 26.184%)
PPL / ENI / MND / GHPL / OMV Joint Venture
(Operator OMV)
The total volume of gas sold from Sawan for the year was 129,761 million cubic feet as compared to 124,613 million cubic feet in 2005-06. Sawan field is supplying average 370 MMscfd sales gas to northern and southern parts of the country with SNGPL taking around 250 MMscfd and SSGCL 120 MMscfd.

In order to meet the gas sales demand, Sawan-10 has been tied-in and processing of the well stream commenced in July 2007. In order to optimize the reservoir recovery, Sawan-11 is planned to be drilled during 2007-08.

The Plant Debottlenecking Project commenced in mid 2005 has been successfully completed during the year. Plant throughput was gradually increased to 420 MMscfd with maximum gas sales of 394 MMscfd.

The Field Gas Compression Project initiated in 2006 is planned to be installed by 2009.

Miano Gas Field (PPL share 15.16%)
PPL / ENI / OGDCL / OMV Joint Venture
(Operator OMV)
The Miano field gas is being jointly processed with Kadanwari field gas at Kadanwari Plant. The field is currently supplying gas to SSGCL from five wells. During the year the total volume of gas sales from Miano field was 44,041 million cubic feet as compared to 52,744 million cubic feet in the previous year.

As per the Development Plan, well M-10 was tied to the Processing Facility in 1st quarter of 2006-07. The drilling of the well Miano-11 which was spud-in May 2007 has been completed and production testing is in progress.

As part of Field Development, Conceptual Selection and Front End Engineering Design (FEED) for Gas Compression Project is planned to be completed during 2007-08.

Qadirpur Gas Field (PPL share 7%)
PPL / PKP / KUFPEC / OGDCL Joint Venture
(Operator OGDCL)
The total volume of gas sales during the financial year was 182,260 million cubic feet (including 12,066 million cubic feet of dehydrated / raw gas) as compared to 180,886 million cubic feet (including 13,217 million cubic feet of dehydrated / raw gas) in 2005-06.

Qadirpur gas field is one of the major gas fields of Pakistan with original recoverable gas reserves of 4.2 Tcf. As part of field Development Program, additional wells are being drilled to enhance production rates.

Based on 2D and 3D seismic data interpretation, an exploratory deep well, Qadirpur Deep X-1 was spud in May 2006 and reached near target depth. Currently the drilling is temporarily suspended to acquire high temperature pressure equipments to continue operations.

Existing Membrane based Gas Processing Facilities at the field have installed capacity of 500 MMscfd sales gas. Considering existing reservoir potential and demand for additional gas production from the field, a capacity enhancement project is in progress to increase sales gas from 500 to 600 MMscfd by 2008. In order to maintain long-term sales gas supplies at contractual delivery pressures, Gas Compression Facilities are planned to be installed by 2008-09. An EPCC contract has been executed with M/s China Petroleum Engineering Construction Corporation (CPECC) in November 2006 for the project.

Block 3370-3 (Tal) (PPL share 27.763%)
PPL / OGDCL / GHPL / POL / MOL Joint Venture
(Operator MOL)
Following is a comparison of current year's sales with the previous year from Tal Field:

	2006-07	2005-06
Natural Gas (Million cubic feet)	22,164	16,616
Condensate (Thousand barrels)	638	162
Crude oil (Thousand barrels)	30	142

Manzalai Discovery
The sustained deliverability of the discovery well Manzalai-1 has been established through Extended Well Testing (EWT). Following declaration of commerciality, the field is being developed for production. After successful completion of appraisal well Manzalai-2, two development wells have been drilled and the drilling of third development well is in progress. The development plan includes a 300 MMscfd processing facility, with expected commissioning during 2009-10.

Makori Discovery
The EWT of Makori discovery is in progress. Remedial workover and stimulation job was carried out on Makori-1 which has improved the production to about 27 MMscfd gas and 2,000 bpd condensate.

Exploration Activities

In the wake of escalating oil prices the exploration activities in quest of hydrocarbons are gaining unprecedented momentum both locally and internationally. The E&P companies have accelerated their operations worldwide and significantly expanded their exploration portfolios. PPL's present exploration portfolio consists of 24 exploration blocks out of which eight (8) areas are PPL operated and sixteen (16) areas including four (4) offshore blocks are partner operated. In addition Farm-in into Margala North and Margala blocks operated by MOL is under consideration through swap of working interest in PPL blocks. Blocks recently applied for by different companies are also being evaluated for bidding. In addition 3-4 prospective areas are being short listed for submission of Exploration License applications as Operator.

To revamp its exploration strategies the Company has employed modern technology including state-of-the-art computer applications, remote sensing and communication techniques. The Company fully utilized the recently available high resolution satellite images for structural interpretation to help evaluate hydrocarbon prospectivity of four exploration blocks in Balochistan. Efforts are under way to conduct microseep surveys, a relatively new technique in Pakistan, to identify hydrocarbon anomalies and understand source rock distribution in the Khuzdar and Bahawalpur East Blocks.

The Company has encouraged ENI (Operator) to acquire the available offshore seep data for its Indus Offshore C, M & N Blocks. In addition Joint Venture is considering a new technique 'Electromagnetic Mapping' for sub-seafloor structure. Digitization and geo-referencing of tectonic and structural maps of Pakistan is ongoing which will allow ready access for quick G & G data evaluation in an organised manner.

PPL Operated Blocks

Block 3372-12 (Kot Sarang) (PPL share 75%)
PPL / MGCL Joint Venture
Exploration well Sarang X-1 was spud in June 2006 and was successfully drilled down to total depth of 4,775 m in Khewra formation. Based on the evaluation of the well data four prospective intervals were identified and tested for hydrocarbon potential. Due to discouraging test results, the well was plugged and abandoned as dry hole and the Block was relinquished.

Block 2568-13 (Hala) (PPL share 65%)
PPL / MGCL Joint Venture
Processing of 128 sq. km 3D seismic data and its interpretation / mapping completed. First exploration well Adam X-1 was spud in April 2007 and was successfully drilled down to total depth of 3,566 m in Lower Goru formation. Test results of the potential reservoir zones of the formation are encouraging.

Block 2568-15 (Tajpur) (PPL share 100%)
Acquisition of 210 sq. km 3D seismic data, its processing and interpretation / mapping were completed during the year. Reprocessing of selective data is being carried out in order to further enhance the seismic data quality and accuracy of interpretation/ mapping.

An agreement has been signed between PPL and Gingko Petroleum of China, whereby PPL has agreed to assign 30% working interest in the Block to Gingko Petroleum.

Block 2867-3 (Dadhar) (PPL share 45.66%)
PPL / KUFPEC / MGCL / GHPL Joint Venture
Work for construction of access road / well site remained suspended due to security reasons and will resume after the availability of rig for drilling Tangna Pusht well is firmed up.

One year extension in 3rd licence year with effect from 19 September, 2006 has been applied to the Government due to security reasons.

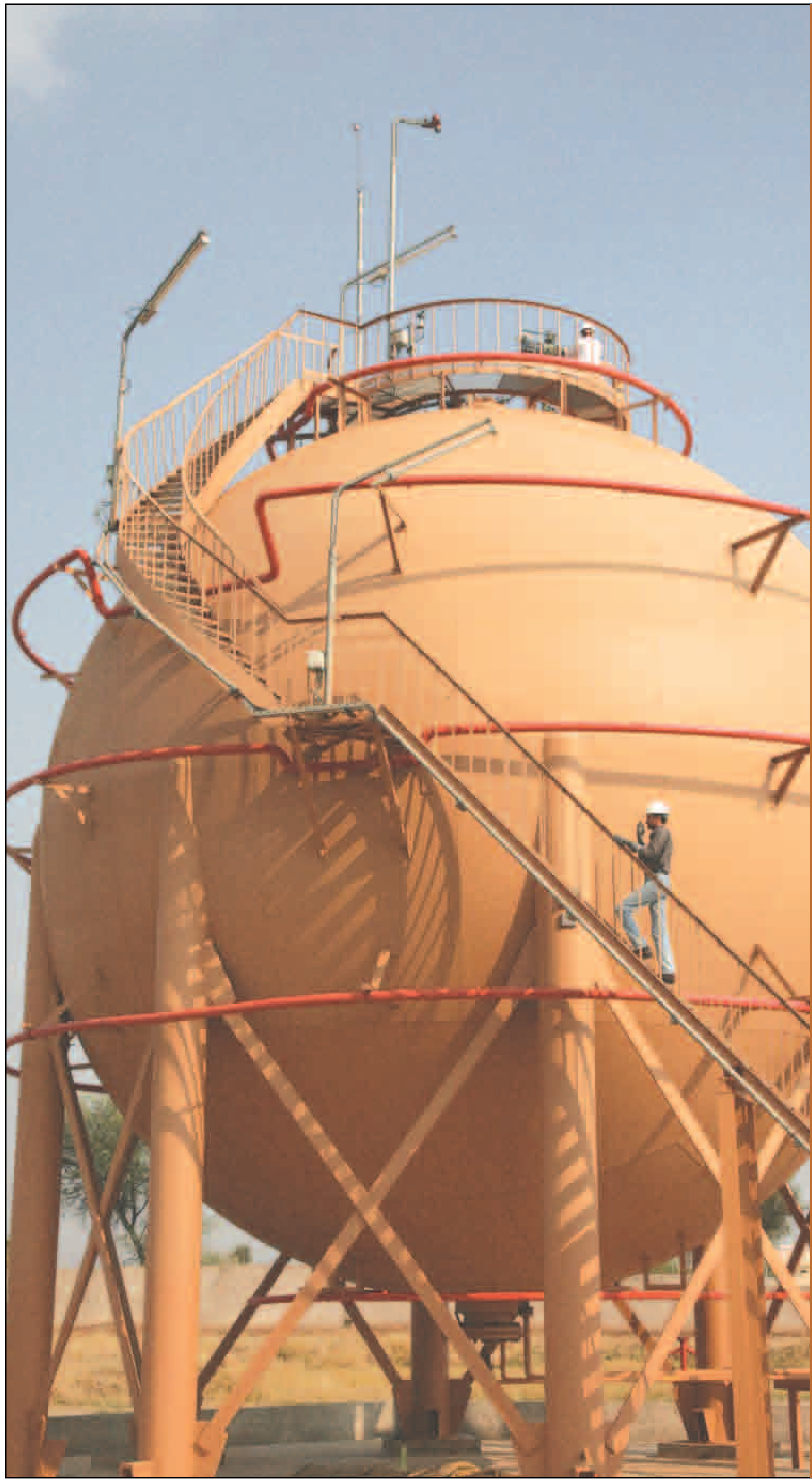
Block 2966-1 (Nushki) (PPL share 65%)
PPL / ENI Joint Venture
Structural / stratigraphic interpretation / mapping using satellite imagery has been completed for evaluation of hydrocarbon potential of the Block. Efforts are being made to conduct the planned 60 line km 2D seismic survey as soon as security clearance from the Government and the contractor crew becomes available.

PPL's 35% working interest in the Block has been transferred to ENI in April 2007.

Block 2766-1 (Khuzdar) (PPL share 65%)
PPL / ENI Joint Venture
Structural / stratigraphic interpretation / mapping using satellite imagery has been completed for evaluation of hydrocarbon potential of the block. Efforts are being made to conduct the planned 160 line km 2D seismic survey as soon as security clearance from the Government and contractor crew is available.

PPL's 35% working interest in the Block has been transferred to ENI in April 2007.

Block 2866-2 (Kalat) (PPL share 65%)
PPL / ENI Joint Venture
Geological fieldwork in Kalat Block has been successfully completed in June 2007. Structural / stratigraphic interpretation / mapping using satellite imagery has been completed. Efforts are being made to conduct the planned 1,000 stations gravity / magnetic survey in the block as soon as the security clearance from the Government and contractor crew is available.



Directors' Report

PPL's 35% working interest in the Block has been transferred to ENI in April 2007.

Block 2696-8 (Barkhan) (PPL share 50%)
PPL / MND Joint Venture
Reprocessing and interpretation / mapping of 451 line km 2D seismic data and geological fieldwork was successfully completed. Lab analysis of rock samples collected during fieldwork is in progress. Structural / stratigraphic interpretation / mapping using satellite imagery as well as Integrated G&G studies have been completed. Reserves estimates and economics analysis of identified prospects are in progress.

The Company has approached the Government for security clearance of the seismic contractor, BGP of China to commence the seismic survey.

Procurement of long lead materials for re-entry of Miriwah -1 well and drilling of an exploration well in the area is in progress.

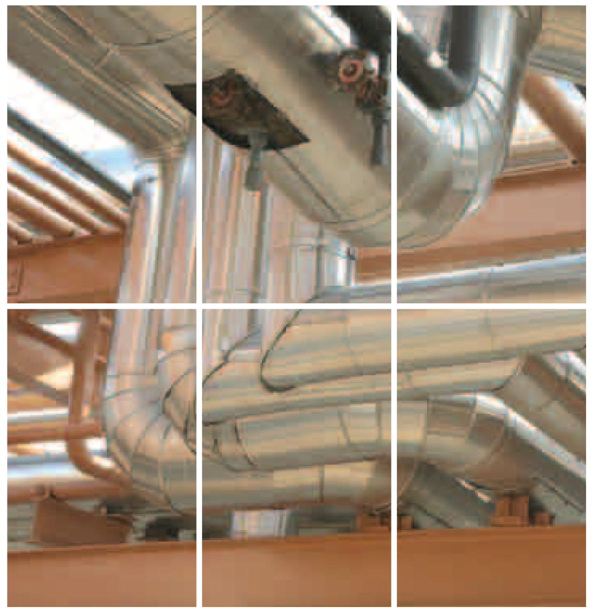
Block 2971-5 (Bahawalpur East) (PPL share 49%)
PPL / ZHENHUA Joint Venture
The Block was granted to Zhenhua Oil of China in March 2007. Zhenhua Oil transferred its 49% working interest in the Block along with Operatorship to PPL.

Geological and Geophysical data has been purchased and being evaluated. Bids have been invited for test processing of two seismic lines.

Partner Operated Blocks

Block 22 (Hamza Appraisal) (PPL share 45%)
PPL / PEII / GHPL / PEL Joint Venture
(Operator – PEL)
Acquisition of 134 line km 2D Seismic survey has been completed.

Block 2668-4 (Gambat) (PPL share 30%)
PPL / ENI / GHPL / OMV Joint Venture
(Operator – OMV)
Exploration well Tajjal-1 drilled to a total depth of 3,845 m on 'Tajjal East Prospect' resulted in gas discovery from Lower Goru "B" sands. Appraisal of the discovery and extended well testing is being planned. Renewal of exploration licence for second year term with commitment to drill one exploration well upto Lower Goru level is agreed by partners.



Block 2668-5 (South West Miano-II)
(PPL share 33.3%)
PPL / ENI / OMV Joint Venture
(Operator – OMV)
Exploration well Michko-1 was drilled to a total depth of 3,420 m in Lower Goru "C" sands. The well was plugged and abandoned as there was only minor gas flows from Lower Goru "C" sands.

Processing and reprocessing of 619 line km new and vintage, and special processing of 344 line km 2D data along with its interpretation has been completed. It has been decided to enter into first renewal of two years term from 17 July, 2007 by committing one shallow exploration well.

Block 2669-3 (Latif) (PPL share 33.3%)
PPL / ENI / OMV Joint Venture
(Operator – OMV)
Exploration well Latif-1 drilled to a total depth of 3,520 m in Lower Goru "B" sands on Sawan Junior Prospect resulted in a gas discovery from Lower Goru "Intra C" sands. Preparation for an extended well testing of the discovery is in progress. The Government has been requested to allow entry in Phase II of the licence from 1 July, 2007 with commitment to drill one exploration well.

Preparations to undertake 428 sq. km 3D seismic survey and special processing are in progress to delineate the extent of Latif discovery and location of the appraisal well.

Block 3370-3 (Tal) (PPL share 30%)
PPL / OGDCL / GHPL / POL / MOL Joint Venture
(Operator - MOL)
Third and fourth exploration wells Sumari Deep X-1 and Kahi Deep X-1 were drilled down to total depth of 2,323 m and 2,100 m respectively. Sumari Deep X-1 was plugged and abandoned as dry hole, whereas, Kahi Deep X-1 was suspended for further evaluation. Fifth exploration well Mamikhel -1 was drilled down to a total depth of 4,100 m. In view of encouraging results, the well is being sidetracked to evaluate its updip potential.

First and second development wells Manzalai-3 & 4 were drilled down to total depths of 4,870 m and 4,196 m respectively and were completed as gas producers. Third development well Manzalai-6 was spud-in on 29 June, 2007 with a planned total depth of 4,188 m in Chichali Formation (Cretaceous). Drilling is in progress.

Acquisition of 168 line km 2D seismic over Manzalai North and West leads was completed. Processing of the data and integrated geological and geophysical studies are in progress.

Block 3370-10 (Nashpa) (PPL share 30%)
PPL / GHPL / OGDCL Joint Venture
(Operator – OGDCL)
Processing of 215 sq. km 3D seismic data over Lowergai / Nashpa Banda leads and 236 line km 2D seismic data in the western part of the licence completed and interpretation of the data is in progress.

The first exploratory well Mela-1 was completed as oil and gas producer.

Block 2667-7 (Kirthar) (PPL share 30%)
PPL / POGC Joint Venture
(Operator– POGC)
162 line km 2D Seismic survey was completed and processing of the data is in progress.

Block 2365-1 (Offshore Indus E) (PPL share 20%)
PPL / OGDCL / PREMIER / KUFPEC / SHELL
Joint Venture (Operator – SHELL)
Procurement of drilling material has been completed and well services have been secured for drilling of exploration well 'Anne AX-1' which is expected to commence in end September 2007.

Blocks 2569-2 (Thar), 2469-8 (Umarkot)
(PPL share 25%), Blocks 2470-2 (Rajar) & 2470-3
(Mithi) (PPL share 15%)
PPL / ENI Joint Ventures
(Operator – ENI)
Assignment Agreements in respect of assignment of (i) 25% working interest in Thar & Umarkot and 15% working interest in Rajar & Mithi to PPL and (ii) 35% working interest each in Nushki, Khuzdar and Kalat to ENI were approved by the Government thereby formalizing the swap arrangement between PPL and ENI.

Acquisition of 2,068 line km 2D seismic data out of planned 3,730 line km has so far been completed in the above Blocks. The survey for acquisition of remaining data is in progress.

Block 2366-7 (Offshore Indus- C) (PPL share 40%)
Blocks 2366-4 (Offshore Indus- M) & 2366-5
(Offshore Indus -N) (PPL share 30%)
PPL / ENI Joint Ventures
(Operator - ENI)
Assignment Agreements for assignment of 30% working interest each in ENI's Indus Offshore M & N blocks to PPL against transfer of 60% working interest to ENI in Offshore Indus C Block along with operatorship were approved by the Government.

A total of 277 line km 2D and 702 sq. km 3D seismic data has been acquired in Block M while acquisition of 409 line km 2D and 310 sq. km 3D has been completed in Block N. Processing of the recently acquired seismic data is in progress. A 3D seismic survey is planned in Offshore Indus C Block in September / October 2007.

Block 3070-13 (Baska) (PPL share 49%)
PPL / ZHENHUA Joint Venture
(Operator – ZHENHUA)
The Block was granted to ZhenHua Oil of China in March 2007 on Government to Government level. Subsequently ZhenHua Oil transferred its 49% working interest in the Block to PPL.

The Joint Venture has approved work program and budget for the year 2007. Preparations for purchase and reprocessing of vintage 2D seismic data are in progress.

Future Prospects and Plans

The Company's exploration strategy is aimed at replenishing and, if possible, increasing its existing petroleum reserves through vigorous exploration efforts both within and outside the country. The Company plans to maintain a manageable portfolio of about 25 to 30 exploration areas. Presently, the Company holds working Interest in 24 Exploration Licences and additional areas are being continuously evaluated for submission of new applications / farm-in and to replace concessions which are surrendered. It is also planned to drill about 100 exploratory wells in the next ten years to achieve the desired objectives. Out of the above, about 50 wells are planned to be drilled in PPL operated areas.

Pakistan's Offshore, with 1,064 km coast line is unique as it has two contrastingly different sedimentary basins, Offshore Indus and Offshore Makran, which are passive and active margins respectively, divided by a plate boundary known as Murray Ridge. Pakistan's Offshore Indus Delta offers huge potential of hydrocarbon reserves which can be tapped by using the modern technology and innovative methods. Offshore Indus is regarded as the world's second largest delta system, spread over 1.1 million sq. km. It developed off the passive continental margin of Pakistan-India and has many similarities with world's major producing deltas including Niger (Nigeria), Mahakam (Indonesia) and Gulf of Mexico. Evidence of hydrocarbon was found in many wells drilled in the Indus Offshore Delta indicating the presence of an active hydrocarbon charge system. Exploration activities in the Offshore Indus have picked up significantly during the last few years and at present nearly the entire basin is under concessions. Currently, PPL holds Working Interests in four Offshore concessions Indus C, E, M and N blocks.

International Exploration

While exploration efforts are continuing within the country, Company is also evaluating international business opportunities, both for new venture exploration as well as acquisition of developed and undeveloped reserves. The relatively less explored regions with favourable terms, low exposure and stable geopolitical conditions are preferred. However, well explored countries with medium cost, medium risks and high returns may also be considered.

As a result of its continued efforts in the International Exploration front, the Company in Joint Venture with OMV has recently been awarded Block 29 in

Directors' Report

Yemen after successful bidding. PPL and OMV each hold 50% Working Interest with OMV as operator. Currently, Production Sharing Agreement (PSA) negotiations are underway with the Government of Yemen for the Block. Due diligence of Block 43B (Operator MOL) located in Oman is underway for farm-in consideration. A three member technical/commercial team has visited Morocco, Tunisia and Mauritania for evaluation of exploration opportunities in these countries. Evaluation of exploration investment opportunities in other North African and Central Asian countries has also started.

Bolan Mining Enterprises

Bolan Mining Enterprises (BME), a 50:50 Joint Venture between PPL and the Government of Balochistan, posted a record pre-tax profit of Rs 114.228 million during the financial year as compared to Rs 78.048 million earned in 2005-06. The sales of Barytes touched an all time high of 43,730 tonnes during the year mainly because of consistently enhanced drilling activity in the country, coupled with sales promotional efforts made by BME which includes obtaining certificate of authority to use the official monogram of American Petroleum Institute (API) on BME Barytes.

After appropriation of Rs 18.964 million towards reserve for development and expansion, your Company's 50% share of profits was Rs 47.632 million.

In view of the positive findings of pilot plant test, a contract has been signed with M/s DMT GmBH for undertaking the Engineering Study of a Beneficiation Plant at Nokkundi.

Risk Management

The Company operates in a challenging environment with a degree of uncertainty inherent in the E&P business and some other factors which may adversely affect its' operations and profitability. Major risk factors include significant decline in international crude oil and HSFO prices which forms basis for pricing of the oil and gas produced by the Company resulting in consequent reduction in profitability, under-performance of major oil and gas fields forcing material revision in production and reserve estimates, security conditions at locations particularly in the province of Balochistan disrupting Company's operations and restraining its' exploration efforts, delay or default in settlement of Company bills by customers, increased cost of compliance due to change in health, safety and environmental regulations, adverse economic and financial market conditions arising from economic and political instability and exposure to increased

competition due to entry of new players in the oil and gas sector.

The Company has tailored its business strategies accordingly to effectively address these risks and has developed a well integrated mechanism which identifies potential risks, evaluate and prioritize them, and prompts timely and appropriate actions to keep risk level within tolerable limits. The Company's investment in the development of any oil and gas discovery is preceded by extensive technical studies and evaluation of the underlying reservoir. The reserve estimates for each of PPL's fields are certified and audited by reputable international petroleum consultants and updated as required effectively minimizing the risk of lower production on account of reservoir underperformance or other factors.

Human Resources

Human Resource is considered to be the most valuable asset of the Company. The Company firmly believes that the success of its projects in hand and those planned for the future, depends on a transparent and proactive human resource strategy aimed at ensuring that the best talent in the market, with requisite skills and competencies, is attracted to join the Company and retained through fair and equitable dispensation of its policies. The Management therefore puts in concerted efforts to ensure that challenges posed in terms of attracting, retaining and motivating its high caliber and talented workforce are effectively managed.

Staff in PPL is continuously encouraged and motivated to deliver high level of performance which, in turn, is rewarded accordingly. Top performers are acknowledged every year through a Performance Excellence program which aims not only at rewarding and instilling a sense of pride in high performers but also motivates other staff to work diligently and to set for themselves the same performance benchmarks as have been achieved by their high-performing peers.

Cognizant of current Human Resource trends, the Company strives to provide its staff with competitive remuneration packages and an enabling corporate environment with ample learning opportunities to pursue career progression and develop technically, professionally and personally. Such a culture facilitates Company's workforce to achieve its true potential and maximize its contribution to the business as well as to the community in which it operates.

Training and Human Resource Development

Training is an essential element of the Company's human resource strategy to develop the requisite skills and competencies in staff, keep them abreast of the latest developments in business practices and management and equip them with requisite tools necessary to take on new and complex challenges posed by the ever changing and dynamic business environment. Training is perceived as an investment in human capital and the Company values it accordingly. Based on formal assessment of training needs, the employees are nominated for high quality local or foreign training programmes.

During the year, 1,462 staff members attended 185 local and 32 foreign training courses on various topics. Three PPL scholars, after completing higher education abroad returned back and joined the Company while two of the Company's scholars are still continuing their higher studies in Petroleum Engineering abroad in reputed foreign universities.

Internships are also offered every year to a large number of students undergoing professional studies in various disciplines. Practical training was provided to over eighty fresh graduates at various fields and departments at the Head Office. Nine Special Trainee Technicians were inducted by the Company in Sui/ Dera Bugti area who are presently undergoing on-the-job training.

Industrial Relations

The overall industrial relations climate and working environment remained cordial and harmonious at all locations of the Company including Sui gas field. Recreational and motivational activities in the form of Annual Sports, Long Service Award Ceremony and traditional Sui Gala, organized after a gap of few years at Sui gas field, were well received by the employees and helped in restoring harmony at the field.

The previous Union Agreement expired on 31 December, 2006. Bilateral negotiations for conclusion of the CBA Agreement for the years 2007 and 2008 are in progress.

Research and Development

Oil and gas exploration and production is a capital intensive and high risk business involving complex processes, specialized and technical know how for successful operations. Research and development of innovative processes is an integral part of Company's operations which help to keep pace with the technological advancement and study and disseminate experience, expertise and know-how to help maintain the competitiveness as well as economic and environmental sustainability of the Company's activities.

At PPL, we are constantly on the look out for new methods and procedures to improve recovery techniques, reservoir evaluation, increase drilling / discovery success ratio, enhance recovery from mature reservoirs, reduce cost of production, bring efficiency in operations and minimize adverse environmental impacts of hydrocarbon production.

Health, Safety & Environment

Health and safety of employees and other stakeholders associated with Company's activities and protection of environment remained on Company's top priority list. The Company is committed to strive for protection of environment by reducing impacts and adverse effects resulting from its projects and development activities.

PPL aims to achieve operational excellence by incorporating industry best practices & world class system in organizational setup leading to overall cultural improvement and workplace safety within the organization. In pursuance of its prime objectives, Implementation Phase of ISO 14001 & Occupational Health and Safety Assessment (OHSAS) 18001 is in progress at PPL fields.

Statutory compliance has always been an area of prime importance at PPL. Recently, PPL has registered all its fields under Self Monitoring and Reporting Tool (SMART) Program launched by Federal EPA for National Environment Quality Standards (NEQS) compliance. Also, Initial Environment Examination (IEE) / Environment Impact Assessment (EIA) Regulations, 2000 are consistently complied at all development projects initiated by the Company.

A number of HSE training modules are designed to enhance awareness, level of understanding and to sharpen skills of employees including contractors with an objective to bring a cultural change to meet world class HSE standards and practices within the organization. HSE training programs have been developed based on training needs assessment matrix of individuals.

The prevailing HSE policies and procedures promote no blame culture and encourage incident reporting including near misses. A detailed root cause investigation is conducted for corrective and remedial measures to avoid reoccurrence of incidents.

HSE audits and inspections of Fields, Drilling & Exploratory Sites and Offices are conducted as per annual plan, followed by issuance of audit report containing observations along with set of recommendations to eliminate gaps through action plan.

Corporate Social Responsibility

As a responsible corporate citizen, the Company plays an active role for betterment of the society as a whole and upliftment of the communities surrounding its operations, in particular. The Company's social welfare initiatives are directed towards promoting quality education, providing medical and healthcare facilities, financing major infrastructure projects, helping to alleviate sufferings of the affectees of the natural disasters, sponsoring sport events and cash donations to support the humanitarian and social welfare initiatives. The list is not limited rather expanding as the Company takes on social initiatives where it considers that its contribution and participation is going to make a meaningful difference.

At PPL, we believe that a strong bond of partnership with communities is imperative for long-term corporate sustainability. The welfare projects are undertaken individually as well as in partnership with local governments, civil society institutions and the non-governmental organizations with a thorough consultation with all stakeholders. PPL has been providing quality education and healthcare facilities through Sui Model School and Sui Field Hospital to the employees as well as local populace at Sui gas field for past many years. PPL also supplies free water and gas to the entire Sui town.

All the welfare activities of the Company are undertaken and managed centrally by PPL Welfare Trust, an independent entity managed by a separate Board of Trustees. This year had been very eventful and a number of CSR activities were undertaken by the Trust. Some of the Welfare Trust activities are listed below:

- Contribution towards establishment of Balochistan Public School at Sui.
- Construction of FG Public High School at Sui is in progress.
- Construction of Ladies Handicraft & Welfare Centre at Sui is in progress.
- Provided free medicines to Rural Health Centre at Sui.
- Awarded scholarships for professional higher education to eight students of District Dera Bugti.
- Operated Free Mobile Dispensary at Sui and Mazarani.
- Adopted three Triple Merger Centers of the Marie Adelaide Leprosy Control programme at the District Kech (Turbat) and District Panjgur for a period of four years.
- Operated Triple Merger Centre at Kandhkot that provided treatment to a large number of patients in the area suffering from Tuberculosis, blindness and leprosy.
- Held free Eye Surgical Camps at Dera Bugti, Kamber, Kandhkot and Adhi.
- Constructed Female Surgical Ward at DHQ Hospital, District Khuzdar and Female Patients Ward at the RHC, Jhall Magsi.
- Donated Gas Chromatograph to Petroleum Engineering Department, NED University, Karachi.
- Donation to LRBT Eye Hospital at Mandra, District Rawalpindi for the purchase of ophthalmic equipment.
- Donation to the Psychiatric Care & Rehabilitation Center of Karwan-e-Hayat, Karachi towards meeting their monthly operating expenditure.
- Donation to the Ahmed E. H Jaffer Foundation for construction of two Academic Blocks at 'The Hub School, Karachi'.

- Donation to Behbud Girls High School, Karachi towards meeting operating expenses.
- Donated fully equipped Ambulance to the DHQ Hospital at Nushki and Gawadar.

During the year Company gave donations to the following educational institutions and charitable/ non-governmental organizations to support their noble cause:

- Murshid Hospital and Health Care Centre
- National Management Foundation- Lahore University of Management Sciences for School of Science and Engineering Project
- Institute of Special Children
- Marie Adelaide Leprosy Centre
- The Kidney Centre
- Aga Khan Hospital and Medical College
- Special Olympics Pakistan

Cognizant of the growing needs of the society, PPL stands committed to deliver.

Corporate Awards

It is a matter of much pride and honour that during the year four awards were conferred to PPL in recognition of the excellent performance of the Company in the areas of Corporate Social Responsibility, Corporate Reporting and Contribution of taxes and duties to the National Exchequer.

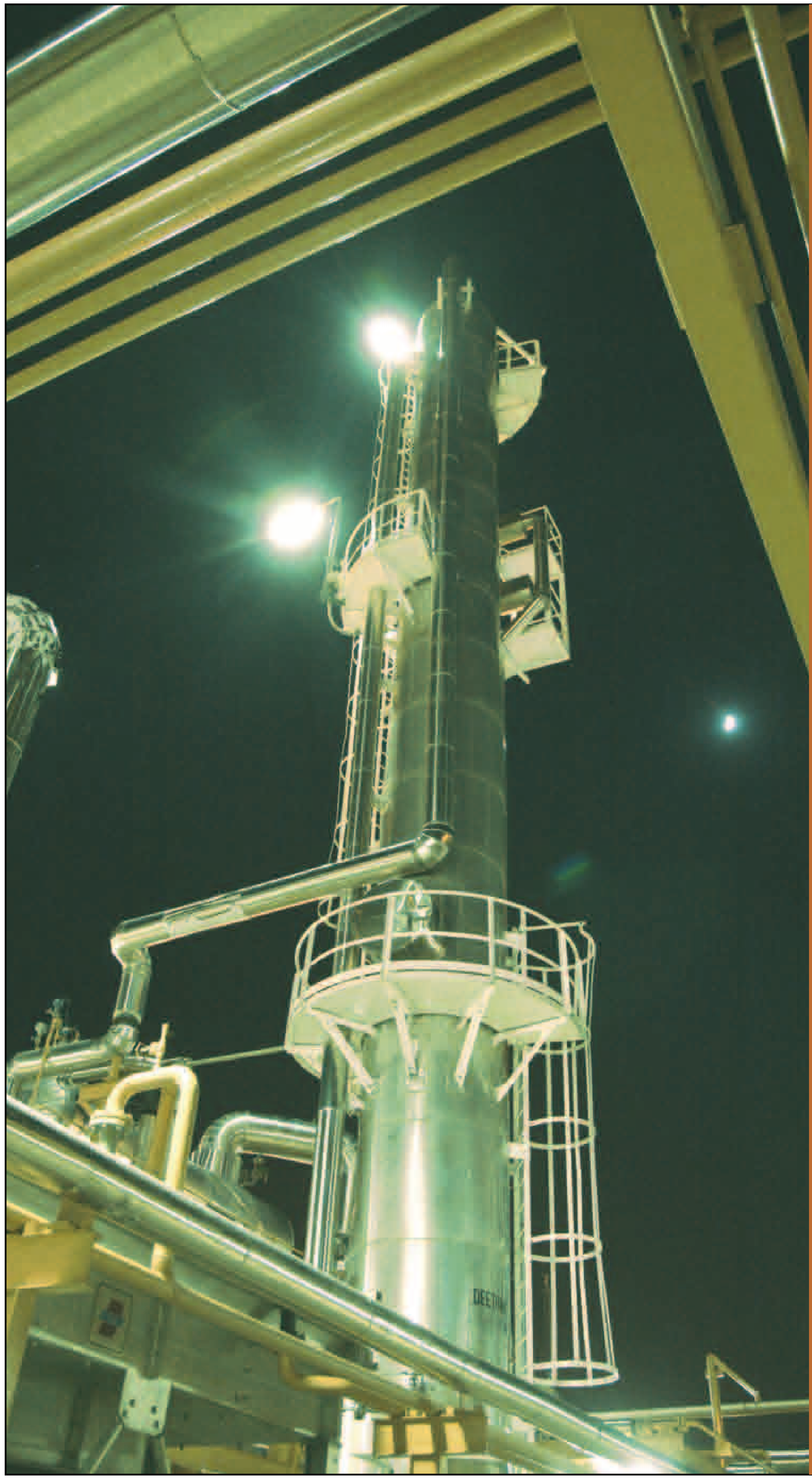
Corporate Philanthropy Awards

Pakistan Centre for Philanthropy (PCP) conferred two Philanthropy Awards to PPL for the two consecutive years 2004 and 2005 ranking it as the country's top corporate contributor in humanitarian causes and social welfare areas.

The awards, initiated for the first time by PCP were based on a survey titled 'Corporate Philanthropy in Pakistan: Survey of Public Listed Companies 2004-2005' to gauge corporate involvement in CSR activities.

Best Corporate Reports Awards 2005

The Company attaches utmost importance to accurate and transparent reporting providing full financial and non-financial disclosures in the corporate reports in accordance with the statutory provisions, international standards and best practices of the corporate governance.



Directors' Report

PPL's Annual Report 2005 was ranked fourth best in the oil and gas sector in the 'Best Corporate Report Awards 2005' ceremony organized by the Joint Committee of Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP).

Large Taxpayers Unit (LTU) Awards

PPL was recognized as the top contributor and the best tax compliant Company in the oil and gas sector in the first ever 'tax payer awards ceremony' organized by the Large Taxpayers Unit.

The awards were distributed to the leading taxpayers from 17 sectors of the economy selected from a total of 700 taxpayers.

Information Technology

PPL has a world class enterprise business transaction processing and information system comprising of centralized 3-tier SAP System Landscape with Oracle database. All core modules of the system have been implemented. The Company has successfully implemented two additional SAP Modules for effective budget monitoring and control through the system. The System is supported by an in-house team of highly experienced professionals for problem resolution and business process improvements. As a policy for continuous improvement, the Company plans to use the expertise of SAP international consultants to upgrade SAP System and perform 2nd phase of Business Process Reengineering to align key business processes with Industry Best Practices. The Company is also in the process of establishing a SAP Competency Center by employing a best possible mix of experienced business analysts and fresh software engineering graduates to work with the SAP International Consultants for necessary training and joint execution of approved action plan.

PPL's Corporate Information Technology Infrastructure consists of enterprise Intranet of more than 1,000 nodes converging all PPL operated field locations at a central site via most feasibly available Wide Area Network (WAN) options. The blend of on-site and off-site IT Support Service for software/hardware maintenance is available to more than 800 users. The desktops are centrally managed using Microsoft Systems Management Server. A web based Problem Reporting & Tracking System is click away for all intranet users.

As part of Business Continuity Plan, an alternate site has recently been established and is under final testing to ensure continued availability of IT Systems and Services.

Quality Management

Quality has always been an integral part of Company's operations. In pursuit of excellence in Quality Management System (QMS), PPL has carried out Gap Analysis between the existing system and ISO 9001-2000 QMS at all field locations and departments under Production function

The work has also commenced for development and implementation of the Quality Management System as per the recommendations of the Gap Analysis Report.

WTO Challenges

Despite having witnessed sufficient growth over the past few decades, Pakistan's available energy supplies still considerably lags behind its' demands. The growth in production expansion has not been able to catch up with the growth as experienced by the economy at large, a disparity which is expected to become more pronounced given high economic growth forecast for the future. While new discoveries of oil and gas reserves are expected to help offset this pressure, Pakistan undoubtedly remains energy deficient, thus requiring investment from both local and foreign quarters to meet its domestic requirements.

The country's ever growing appetite for energy coupled with the fast paced industrialization process particularly in the wake of increased trade liberalization in the post WTO era has opened the corridors of the country's vastly untapped resources to foreign entrepreneurs. Exploration and Production sector remains one of the most vibrant sectors of the Pakistan's economy and attracts highest level of foreign direct investment. The Company is cognizant of the implication of such liberal trade environment and has tailored its business strategies accordingly.

The Company is also alive to both the economic and technical synergies that would ensue from participation in ventures with the foreign entrepreneurs and has adopted a multi-pronged approach in ensuring alleviation of energy deficiencies.

Foreign Exchange Savings and Government Revenues

PPL contributes significantly to the national economy. The Company's share of production of natural gas from its operated and non-operated fields, and production of Oil, LPG and NGL from Adhi and Tal fields for the financial year 2006-07 in terms of energy, was equivalent to 182,000 barrels of crude oil per day resulting in foreign exchange saving of around US$ 4.1 billion for the current year assuming an average crude oil price of US$ 62 per barrel.

In addition, payments to the Government exchequer by your Company was around Rs 27.5 billion during the year (Rs 21.4 billion during 2005-06) on account of taxes, royalties, excise duty, sales tax and gas development surcharge.

Code of Corporate Governance

The Directors are pleased to state that:

(i) The financial statements, prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

(ii) Proper books of account of the Company have been maintained.

(iii) Appropriate accounting policies have been applied in preparation of financial statements and any changes in accounting policies have been disclosed in the financial statements. The accounting estimates are based on reasonable and prudent judgment.

(iv) International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

(v) The system of internal control is sound in design and has been effectively implemented and monitored.

(vi) There are no doubts upon the Company's ability to continue as a going concern.

(vii) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

(viii) Key operating and financial data of last six years has been given on page 54 of the Annual Report.

(ix) Information about outstanding taxes and levies is given in Notes to the Accounts.

(x) The value of investments in employee retirement funds based on the latest audited Accounts as of 30 June, 2006 are as follows:

	Rs million
Senior Provident Fund	723.954
Junior Provident Fund	546.669
Executive Staff Gratuity Fund	241.046
Non-Executive Staff Gratuity Fund	225.142
Executive Staff Pension Fund	1,337.700
Non-Executive Staff Pension Fund	519.761

(xi) During the year 5 meetings of the Board of Directors were held. Attendance by each Director is summarized as follows:

Name of Director	Total number of Board meetings *	Number of Board meetings attended
Mr. M.A.K. Alizai	5	5
Mr. S. Munsif Raza	5	5
Mr. S. R. Poonegar	5	5
Mr. Sajid Zahid	5	3
Mr. Shaukat Hayat Durrani	5	3
Mr. Pervaiz Kausar **	3	3
Mr. Jalaluddin Qureshi ***	3	2
Mrs. Roshan Khursheed Bharucha****	3	2
Mr. Rashad R. Kaldany (Alternate Mr. Nadeem Siddiqui *****)	5	3
Mr. Zahid Majid **	2	2
Mr. Asif Bajwa ***	2	-
Mr. Naeem Malik ****	2	2

* Held during the period concerned Director was on the Board.
** Appointed in September 2006 in place of Mr. Zahid Majid.
*** Appointed in October 2006 in place of Mr. Asif Bajwa.
**** Appointed in October 2006 in place of Mr. Naeem Malik.
***** Appointed as Alternate Director of Mr. Rashad Kaldany in January 2007 in place of Mr. Michael G. Essex.

Leave of absence was granted to Directors who could not attend some of the Board meetings.

(xii) A statement of the pattern of shareholding in the Company as at 30 June, 2007 of certain classes of shareholders whose disclosure is required under the reporting framework and the statement of purchase and sale of shares by Directors, CEO, Company Secretary and their spouses and minor children during the year is shown on page 58 of the Annual Report.

Post Balance Sheet Events

There was no significant post balance sheet event which warrants mention in the Directors' Report.

Directors

Since the last Annual General Meeting held on 30 October, 2006, Mrs. Roshan Khursheed Bharucha was appointed to the Board in place of Mr. Naeem Malik.

Chief Executive

On expiry of his previous term on 31 July, 2007, Mr. S. Munsif Raza was re-appointed by the Board as Chief Executive of the Company effective 1 August, 2007 for another term of one year or until Privatisation of the Company whichever is earlier.

Auditors

The auditors Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and offer themselves for reappointment for the year 2007-08. The Audit Committee of the Board has recommended the reappointment of the retiring auditors.

On behalf of the Board

(M.A.K. ALIZAI)
CHAIRMAN

(S. MUNSIF RAZA)
CHIEF EXECUTIVE / MANAGING DIRECTOR

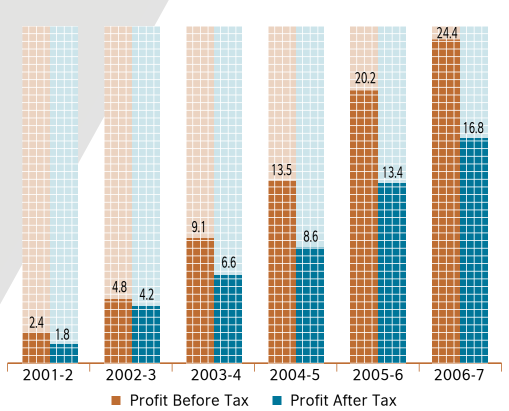
Karachi
10 August, 2007

Six Years' Summary

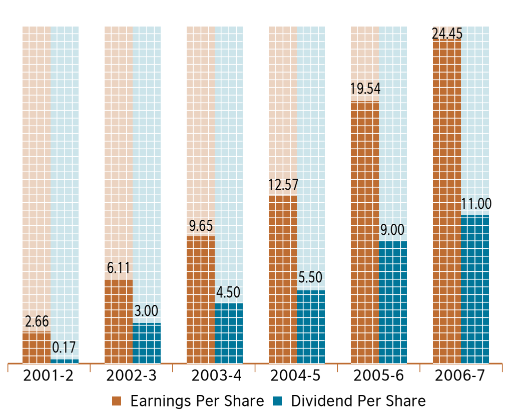
	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7
FINANCIAL PERFORMANCE						
Profitability						
Operating Margin (%)	37	41	53	59	62	64
Pre tax Margin (%)	37	40	51	58	64	63
Net Margin (%)	28	34	37	37	42	44
Return on equity / Capital employed (%)	21	34	41	41	44	42
Liquidity						
Current ratio	1.87	1.57	2.27	2.50	3.25	4.35
Quick ratio	1.49	1.36	1.97	2.21	3.04	4.09
Valuation						
Earnings per share (Rs)	2.66	6.11	9.65	12.57	19.54	24.45
Market Value / Share as at June 30 (Rs) *	-	-	-	215.10	211.85	262.45
Breakup value per share (Rs)	12.75	17.76	23.40	30.98	44.02	58.47
Price Earning ratio *	-	-	-	17.11	10.84	10.73
Dividend per share (Rs)	0.17	3.00	4.50	5.50	9.00	11.00
Bonus Issue (%)	-	-	-	-	-	10
Cash Dividend Payout ratio (%)	6	49	47	44	46	45
Cash Dividend Yield (%) *	-	-	-	2.56	4.25	4.19

* Shares of the Company were listed on the Stock Exchanges in 2004-05.

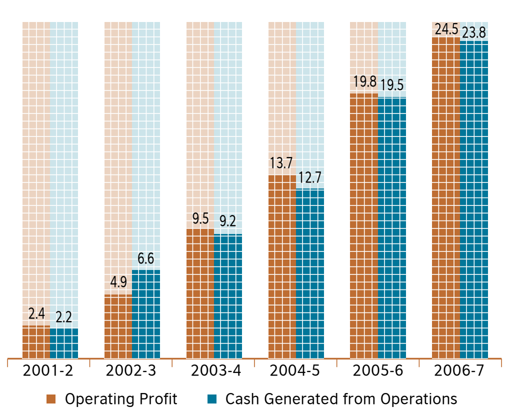
Profit Before & After Tax (Rs billion)



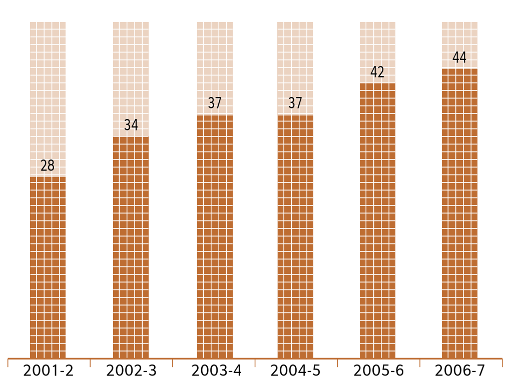
Earnings vs Dividend Per Share (Rs)



Operating Profit vs Cash Generated from Operations (Rs billion)



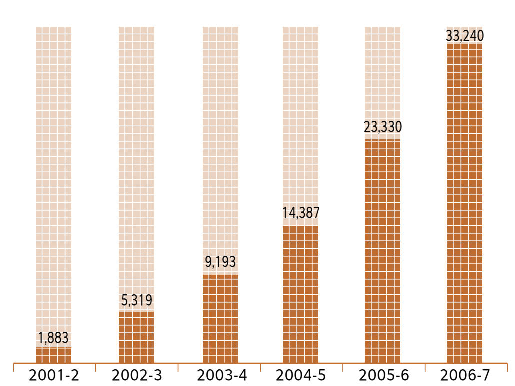
Net Margin (%)



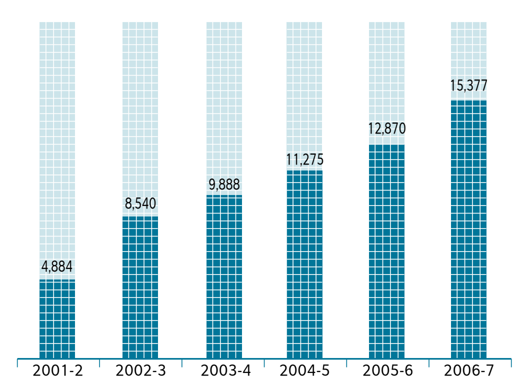
	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7
HISTORICAL TRENDS			Rs Million			
Operating Results						
Sales- Gross (including govt. levies)	14,460	20,239	26,216	32,816	43,565	51,080
Sales - Net (excluding govt. levies)	6,406	12,181	17,668	23,294	31,757	38,383
Operating Profit	2,389	4,937	9,451	13,669	19,841	24,541
Profit before tax	2,382	4,839	9,063	13,475	20,190	24,357
Profit after tax	1,819	4,190	6,617	8,623	13,401	16,768
Corporate Distribution						
Dividend - Interim	49	686	1,371	1,715	2,400	3,086
- Final *	69	1,371	1,715	2,057	3,772	4,458
Bonus *	-	-	-	-	-	686
Financial Position						
Share Capital	6,836	6,858	6,858	6,858	6,858	6,858
Reserves	1,883	5,319	9,193	14,387	23,330	33,240
Fixed Assets	4,884	8,540	9,888	11,275	12,870	15,377
Net Current Assets	3,714	3,205	7,067	10,822	18,721	25,877
Liquid Funds	3,287	4,467	6,638	10,666	17,327	20,892
Long-term / Deferred Liabilities	2,682	2,680	3,726	3,329	2,545	2,556
Others						
Cash Generated from Operations	2,245	6,590	9,210	12,719	19,475	23,806
Payments to Government Exchequer	8,054	11,395	13,025	15,387	21,413	27,462

* Includes declaration subsequent to the year end.

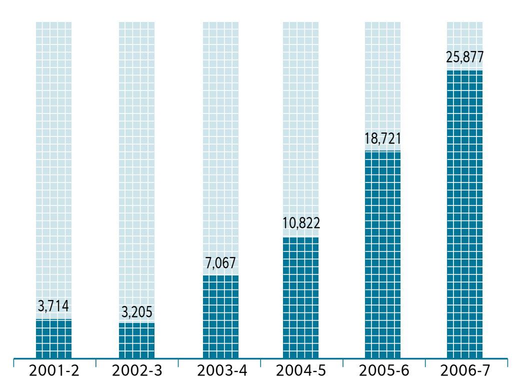
Reserves (Rs million)



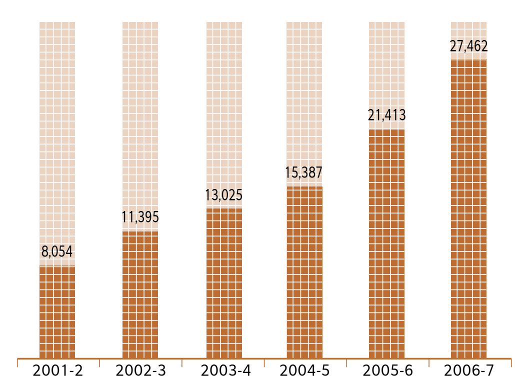
Fixed Assets (Rs million)



Net Current Assets (Rs million)



Payment to Government Exchequer (Rs million)



Movement of Estimated Reserves

	Natural Gas MMscf	OIL / NGL Thousand barrels	LPG Tonnes
Original proven recoverable reserves			
At 1 July, 2006	14,199,154	28,082	488,670
Change during the year			
- Addition of new reserves[1]	2,384	776	-
- Revision in estimates of previous reserves[2]	(70,240)	(416)	-
At 30 June, 2007	14,131,298	28,442	488,670
Production			
Accumulated upto 1 July, 2006	9,807,118	6,913	135,354
Production during the year	365,525	956	14,220
Accumulated upto 30 June, 2007	10,172,643	7,869	149,574
Net reserves 30 June, 2007	3,958,655	20,573	339,096
Net reserves 30 June, 2006	4,392,036	21,169	353,316
Daily average production	1,001	2.62	38.96

1- Additional gas & oil reserves due to successful drilling of first exploratory well Mela-1 in Nashpa Block.

2- Revision in field recoverable reserve estimates of the Manzalai discovery at Tal Block certified by independent consultant.

Movement of Estimated Reserves

Pattern of Shareholding as at June 30, 2007

From	To	No. of Shareholders	No. of Shares Held
1	100	657	40,805
101	500	14,633	7,140,825
501	1000	1,281	1,224,874
1001	5000	1,049	2,484,450
5001	10000	177	1,432,933
10001	15000	74	976,665
15001	20000	53	970,538
20001	25000	43	1,000,470
25001	30000	28	800,139
30001	35000	13	441,100
35001	40000	13	497,184
40001	45000	15	645,423
45001	50000	20	980,600
50001	55000	11	580,331
55001	60000	11	640,200
60001	65000	1	61,600
65001	70000	8	548,296
70001	75000	8	589,032
75001	80000	1	80,000
80001	85000	3	249,524
85001	90000	1	88,000
90001	95000	6	556,560
95001	100000	8	798,500
100001	105000	3	306,500
105001	110000	2	213,400
110001	115000	7	788,871
115001	120000	2	239,500
120001	125000	4	498,100
125001	130000	2	259,500
130001	135000	3	395,300
140001	145000	4	572,900
145001	150000	6	875,600
150001	155000	2	304,900
160001	165000	1	160,300
170001	175000	1	171,000
175001	180000	3	532,400
190001	195000	1	193,500
195001	200000	5	997,000
200001	205000	3	609,400
205001	210000	3	624,225
210001	215000	1	210,100
215001	220000	1	218,000
220001	225000	2	447,400
230001	235000	1	230,200
235001	240000	2	476,500
240001	245000	1	241,491
245001	250000	1	248,500
255001	260000	2	517,000
260001	265000	1	263,600
290001	295000	3	880,200
300001	305000	1	305,000
305001	310000	1	305,900
320001	325000	1	325,000
325001	330000	1	328,500
335001	340000	1	336,500
345001	350000	2	695,400
350001	355000	1	350,700
355001	360000	1	358,300
360001	365000	2	726,100
370001	375000	2	750,000
390001	395000	1	393,000
395001	400000	1	400,000
405001	410000	1	409,100
415001	420000	1	419,800
420001	425000	2	848,739
435001	440000	1	440,000
445001	450000	1	450,000
450001	455000	1	451,800
455001	460000	1	457,000
460001	465000	1	461,100
465001	470000	1	466,300
470001	475000	1	474,544
475001	480000	1	477,800
480001	485000	1	484,500
490001	495000	1	495,000
525001	530000	1	529,500
540001	545000	3	1,627,711
545001	550000	1	545,100
550001	555000	1	552,000
575001	580000	1	577,700
600001	605000	1	604,200
605001	610000	1	607,600
630001	635000	1	634,920
635001	640000	1	639,800
645001	650000	2	1,300,000
685001	690000	1	687,400
705001	710000	1	709,600
715001	720000	1	720,000
720001	725000	1	725,000
770001	775000	1	770,800
795001	800000	1	799,500
815001	820000	2	1,631,100
820001	825000	1	824,200
830001	835000	2	1,664,300
855001	860000	2	1,714,500
870001	875000	1	875,000
915001	920000	1	915,400
930001	935000	1	932,500
990001	995000	1	991,900
1000001	1005000	1	1,003,100
1085001	1090000	1	1,086,600
1095001	1100000	1	1,100,000
1175001	1180000	1	1,175,057
1185001	1190000	1	1,187,243
1190001	1195000	1	1,190,600
1195001	1200000	1	1,200,000
1235001	1240000	1	1,239,100
1250001	1255000	2	2,504,900
1255001	1260000	1	1,256,100
1495001	1500000	1	1,500,000
1515001	1520000	1	1,516,900
1570001	1575000	1	1,571,300
1675001	1680000	1	1,678,886
1875001	1880000	1	1,880,000
2810001	2815000	1	2,812,200
4870001	4875000	1	4,873,600
6625001	6630000	1	6,628,120
11525001	11530000	1	11,528,500
33720001	33725000	1	33,724,442
537670001	537675000	1	537,672,985
Total		18,262	685,822,883

Pattern of Shareholding as at June 30, 2007

Categories of Shareholders	No. of Shareholders	No. of Shares Held	Percentage
Ordinary Shares			
Associated companies, undertakings and related parties	-	-	-
NIT and ICP	3	2,413,461	0.35
Directors, CEO and their spouse and minor children	2	8,713	*
Executives	29	24,212	*
Public Sector Companies and Corporations	8	9,658,120	1.41
Banks, Development Financial Institutions, Non-Banking Financial Institutions	59	15,664,871	2.28
Insurance Companies	17	1,225,032	0.18
Modarabas and Mutual Funds	71	29,766,200	4.34
Non-Resident Financial Institutions			
International Finance Corporation	1	33,724,442	4.92
Others	30	5,884,299	0.86
Shareholders holding 10% or more			
Government of Pakistan	1	537,672,985	78.40
General Public			
Local	17,540	26,859,208	3.92
Foreign	281	141,000	0.02
Joint Stock Companies	188	10,469,800	1.53
Others			
Employees Trust / Foundations etc.	29	12,306,500	1.79
Nazir of High Court	2	30	*
Administrator of Abandoned Properties	1	4,010	*
	18,262	685,822,883	100
Convertible Preference Shares			
Individuals	89	14,350	97.22
Joint Stock Companies	1	370	2.51
Nazir of High Court	1	40	0.27
	91	14,760	100

* Negligible

Additional Information

Information on shareholding required under reporting framework is as follows:

Shareholders' Category	No. of Shareholders	No. of Shares Held
Associated Companies, undertakings and related parties	-	-
NIT and ICP		
National Bank of Pakistan, Trustee Deptt.	2	2,362,300
National Investment Trust Limited	1	51,161
Directors, CEO and their spouses and minor children		
Mr. S. Munsif Raza	1	3,713
Mrs. Azra Raza (spouse of Mr. S. Munsif Raza)	1	5,000
Executives	29	24,212
Public Sector Companies & Corporations	8	9,658,120
Banks, Development Finance Institutions, Non-banking Finance Institutions	59	15,664,871
Insurance Companies	17	1,225,032
Modarbas and Mutual Funds	71	29,766,200
Shareholders holding 10% or more voting interest		
President of the Islamic Republic of Pakistan	1	537,672,985
Trade in shares of the Company by Directors, CEO, CFO, Company Secretary and their spouses and minor children		Nil

Statement of Compliance

With the Best Practices of the Code of Corporate Governance

This statement is being presented to comply with the best practices of the Code of Corporate Governance (the Code) contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes eight non-executive directors and an executive director. All directors of the Company are nominees of the Government of Pakistan except one director who is the nominee of the International Finance Corporation.

2. The directors of the Company have confirmed that none of them is serving as a director in ten or more listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the directors is a member of stock exchange.

4. All the casual vacancies occurring in the Board were filled up by the directors within thirty days thereof.

5. The Company has issued a "Statement of Ethics and Business Practices" which has been signed by all the directors of the Company. The Statement has been circulated to all employees of the Company for their awareness and majority of them have signed it as acknowledgement of their understanding and acceptance.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. The Company has maintained a complete record of particulars of significant policies along with the dates on which they were approved and amended.

7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman who is a non-executive director. The Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Orientation course for directors has been conducted to apprise them of their duties and responsibilities.

10. The appointment of the Company Secretary, including his remuneration and terms and conditions of employment has been determined by the CEO with the approval of the Board of Directors. No new appointment of Chief Financial Officer (CFO) and Head of Internal Audit were made during the year. However any changes to the remuneration, terms and conditions of employment of CFO and Head of Internal Audit have been determined by the CEO with the approval of the Board of Directors.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises four members, all of them are non-executive directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been determined and advised to the Committee for compliance.

17. The Board has set up an effective internal audit function for the Company.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm , their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

(M.A.K. ALIZAI)
CHAIRMAN

(S. MUNSIF RAZA)
CHIEF EXECUTIVE /
MANAGING DIRECTOR

Karachi
10 August, 2007

Review Report to the Members

on Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Pakistan Petroleum Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, the Chapter XIII of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited and Section 3 (Chapter XI) of the Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended June 30, 2007.

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Karachi
10 August, 2007

Review Report to the Members

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakistan Petroleum Limited (the Company) as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Karachi
10 August, 2007

Financial Statements

Balance Sheet
As at June 30, 2007

	Note	June 30, 2007 Rs '000	June 30, 2006 Rs '000
SHARE CAPITAL AND RESERVES			
Share capital	4	6,858,376	6,858,376
Reserves	5	33,239,675	23,330,171
		40,098,051	30,188,547
NON-CURRENT LIABILITIES			
Provision for decommissioning cost	6	1,744,823	1,608,707
Long-term liability for gas development surcharge	7	-	211,858
Liabilities against assets subject to finance leases	8	69,152	79,349
Deferred liabilities	9	742,059	645,431
		2,556,034	2,545,345
CURRENT LIABILITIES			
Trade and other payables	10	7,220,468	4,903,960
Current maturity of long-term liability for gas development surcharge	7	231,289	706,309
Current maturity of liabilities against assets subject to finance leases	8	50,696	44,236
Taxation		212,587	2,677,700
		7,715,040	8,332,205
CONTINGENCIES AND COMMITMENTS	11		
		50,369,125	41,066,097

The annexed notes 1 to 42 form an integral part of these financial statements.

	Note	June 30, 2007 Rs '000	June 30, 2006 Rs '000
NON-CURRENT ASSETS			
Fixed assets			
Property, plant and equipment	12	15,226,821	12,763,021
Intangible assets	13	150,327	106,562
		15,377,148	12,869,583
Long-term investments	14	677,384	308,396
Long-term receivable	15	-	211,858
Long-term loans - staff	16	10,853	12,691
Deferred taxation	17	711,337	610,272
		16,776,722	14,012,800
CURRENT ASSETS			
Stores and spares	18	1,474,655	1,273,261
Trade debts	19	9,002,094	6,941,736
Loans and advances	20	34,001	60,724
Trade deposits and short-term prepayments	21	408,658	301,389
Accrued financial income	22	116,755	89,527
Current maturity of long-term receivable	15	231,289	706,309
Other receivables	23	21,669	12,317
Short-term investments	24	21,515,898	16,918,397
Cash and bank balances	25	787,384	749,637
		33,592,403	27,053,297
		50,369,125	41,066,097

Director

Chief Executive

Profit and Loss Account
For the year ended June 30, 2007

	Note	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
Sales - net	26	38,382,645	31,756,712
Field expenditure	27	9,264,776	8,171,060
Royalties		4,576,591	3,744,822
		13,841,367	11,915,882
		24,541,278	19,840,830
Share of profit in Bolan Mining Enterprises	14.1.2	47,632	21,048
Other operating income	29	2,417,390	1,484,946
Finance cost	30	(49,424)	(30,096)
Other operating expenses	31	(2,600,106)	(1,127,195)
Profit before taxation		24,356,770	20,189,533
Taxation	32	7,588,996	6,788,532
Profit after taxation		16,767,774	13,401,001
Basic earnings per share (Rs)	38	24.45	19.54

The annexed notes 1 to 42 form an integral part of these financial statements.

Director

Chief Executive

Cash Flow Statement
For the year ended June 30, 2007

	Note	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	23,806,485	19,474,696
Taxes paid		(10,155,174)	(6,342,603)
Finance cost paid		(15,984)	(11,100)
Long-term loans - staff (net)		1,838	(1,394)
Net cash generated from operating activities		13,637,165	13,119,599
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(4,028,304)	(3,324,595)
(Purchases) / redemption of long-term investments (net)		(116,119)	20
Purchases of short-term investments		(1,300,000)	-
Share of profit received from Bolan Mining Enterprises		25,000	10,000
Financial income received		2,244,179	1,356,146
Proceeds on sale of property, plant and equipment		11,830	12,158
Net cash used in investing activities		(3,163,414)	(1,946,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of liabilities against assets subject to finance leases		(50,395)	(54,081)
Dividends paid		(6,858,270)	(4,457,898)
Net cash used in financing activities		(6,908,665)	(4,511,979)
Net increase in cash and cash equivalents		3,565,086	6,661,349
Cash and cash equivalents at the beginning of the year		17,326,903	10,665,554
Cash and cash equivalents at the end of the year	36	20,891,989	17,326,903

The annexed notes 1 to 42 form an integral part of these financial statements.

Director

Chief Executive

Statement of Changes in Equity

For the year ended June 30, 2007

	Subscribed and paid-up share capital		Capital reserve	Revenue reserves					Total reserves	Total
	Ordinary	Convertible preference		General and contingency reserve	Insurance reserve	Assets acquisition reserve	Unappropriated profit	Total		
	Rs '000									
Balance as at June 30, 2005	6,858,217	159	1,428	69,761	500,000	1,500,000	12,315,879	14,385,640	14,387,068	21,245,444
Appropriation of insurance reserve for the year ended June 30, 2005	-	-	-	-	500,000	-	(500,000)	-	-	-
Appropriation of assets acquisition reserve for the year ended June 30, 2005	-	-	-	-	-	1,500,000	(1,500,000)	-	-	-
Final dividend for the year ended June 30, 2005										
- Ordinary shares - 30%	-	-	-	-	-	-	(2,057,466)	(2,057,466)	(2,057,466)	(2,057,466)
- Convertible preference shares - 5%	-	-	-	-	-	-	(8)	(8)	(8)	(8)
Conversion of preference shares into ordinary shares	5	(5)	-	-	-	-	-	-	-	-
Profit after taxation for the year ended June 30, 2006	-	-	-	-	-	-	13,401,001	13,401,001	13,401,001	13,401,001
Interim dividend for the year ended June 30, 2006										
- Ordinary shares - 35%	-	-	-	-	-	-	(2,400,377)	(2,400,377)	(2,400,377)	(2,400,377)
- Convertible preference shares - 30%	-	-	-	-	-	-	(47)	(47)	(47)	(47)
Balance as at June 30, 2006	**6,858,222**	**154**	**1,428**	**69,761**	**1,000,000**	**3,000,000**	**19,258,982**	**23,328,743**	**23,330,171**	**30,188,547**
Appropriation of insurance reserve for the year ended June 30, 2006	-	-	-	-	1,000,000	-	(1,000,000)	-	-	-
Appropriation of assets acquisition reserve for the year ended June 30, 2006	-	-	-	-	-	2,000,000	(2,000,000)	-	-	-
Final dividend on ordinary shares @ 55% for the year ended June 30, 2006	-	-	-	-	-	-	(3,772,023)	(3,772,023)	(3,772,023)	(3,772,023)
Conversion of preference shares into ordinary shares	6	(6)	-	-	-	-	-	-	-	-
Profit after taxation for the year ended June 30, 2007	-	-	-	-	-	-	16,767,774	16,767,774	16,767,774	16,767,774
Interim dividend for the year ended June 30, 2007										
- Ordinary shares - 45%	-	-	-	-	-	-	(3,086,203)	(3,086,203)	(3,086,203)	(3,086,203)
- Convertible preference shares - 30%	-	-	-	-	-	-	(44)	(44)	(44)	(44)
Balance as at June 30, 2007	**6,858,228**	**148**	**1,428**	**69,761**	**2,000,000**	**5,000,000**	**26,168,486**	**33,238,247**	**33,239,675**	**40,098,051**

The annexed notes 1 to 42 form an integral part of these financial statements.

Director

Chief Executive

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Petroleum Limited (the Company) was incorporated in Pakistan in 1950 with the main objectives of conducting exploration, prospecting, development and production of oil and natural gas resources. The Company is listed on all the three Stock Exchanges of Pakistan with effect from September 16, 2004.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

(a) Provision and amortisation of decommissioning cost;
(b) Amortisation of prospecting and development expenditure;
(c) Estimation of proven hydrocarbon reserves;
(d) Provision for post employment benefits; and
(e) Provision for taxation.

Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under current circumstances. Revisions to accounting estimates are recognised prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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

3.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for the measurement of 'financial assets at fair value through profit or loss' which are recorded at fair value.

3.3 Staff retirement benefits

a) Defined benefit plans

i) The Company operates funded pension and gratuity schemes separately for its executive and non-executive permanent staff. Provisions are made periodically on the basis of actuarial valuations for these pension and gratuity schemes. Actuarial gains and losses are amortised over the expected remaining average lives of the employees. Vested past service cost is recognised immediately, whereas non-vested past service cost is recognised over the period in which it becomes vested.

ii) The Company provides post retirement medical benefits to its executive and non-executive staff. The cost of these benefits is accrued over the expected remaining service life of the employees based on actuarial valuations. Actuarial gains and losses are amortised over the expected remaining average lives of the employees.

iii) The Company accrues entitlement to leave preparatory to retirement of its executive staff on the basis of actuarial valuation. Actuarial gains and losses are recognised immediately.

iv) Actuarial valuations are conducted annually and the last valuations were conducted as on June 30, 2007 based on the 'projected unit credit method'.

b) Defined contribution plan

The Company operates recognised provident fund schemes separately for its executive and non-executive permanent staff. Equal monthly contributions are made by the Company and the employees to the respective funds.

3.4 Compensated absences

The cost of compensated absences in respect of executive and non-executive staff is recognised on the basis of actuarial valuations. The latest valuations were conducted as on June 30, 2007.

3.5 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. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.6 Decommissioning cost and its provision

Estimated cost to abandon and remove wells and production facilities is capitalised. The amount is based on present value of the estimated future expenditure.

The unwinding of discount is included within the finance cost.

3.7 Taxation

a) Current taxation

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

b) Deferred taxation

The Company recognises deferred taxation using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets on deductible temporary differences is recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

3.8 Property, plant and equipment

a) Owned assets

i) Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and impairment losses, if any. Freehold land and capital work-in-progress are stated at cost.

ii) Capital spares held by the Company for replacement of major items of plant and machinery included in the Sui Field Gas Compressor Station (the Compressor Station) are stated at cost less accumulated depreciation and impairment losses, if any.

iii) Prospecting and development expenditure are accounted for under the "successful efforts" method whereby costs to acquire producing reserves, successful exploratory wells and development wells, including unsuccessful development wells, are capitalised. Unsuccessful exploratory wells are expensed when declared to be non-productive.

All exploration costs other than those related to exploratory drilling are charged against revenue for the year, as incurred.

b) Assets subject to finance leases

The Company accounts for fixed assets acquired under finance leases by recording the assets and the related liability. These amounts are determined on the basis of discounted value of minimum lease payments or fair value whichever is lower. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

3.9 Intangible assets

Computer software costs that are directly associated with the computer and computer controlled machines which cannot operate without the related specific software, are included in the cost of the respective assets. Software which are not an integral part of the related hardware are classified as intangible assets.

3.10 Depreciation and amortisation

a) Property, plant and equipment

i) Depreciation on property, plant and equipment, except freehold land and capital work-in-progress, is charged on a straight line basis at the rates specified in note 12.1 and depreciation on capital spares is charged over the useful lives of the related items of plant and machinery included in the Compressor Station to which these spares relate.

Depreciation on additions is charged from the month following the one in which the asset is available for use and on disposals upto the month the asset is in use.

ii) Capitalised prospecting and development expenditure including costs to acquire producing reserves in respect of proven reserves and decommissioning assets are amortised and charged to profit and loss account on unit of production basis.

b) Intangible assets

Intangible assets are amortised using the straight line method over their useful lives at the rates stated in note 13.

3.11 Investments

a) Subsidiary

Investment in subsidiary is stated at cost less impairment, if any.

b) **Joint venture**

Investment in Bolan Mining Enterprises (BME), a joint venture on a 50:50 basis with the Government of Balochistan, is accounted for using the equity method.

c) **Held-to-maturity**

These are investments with fixed maturity and the Company has the positive intent and ability to hold to maturity. Held-to-maturity investments are initially measured at fair value plus transaction costs and subsequently stated at amortised cost using the effective interest rate method.

d) **At fair value through profit or loss**

Investments which are acquired principally for the purpose of selling in the near term or investments that are part of a portfolio of financial instruments exhibiting short-term profit taking are designated and classified as investments at fair value through profit or loss. These are stated at fair value with any resulting gains or losses recognised directly in the profit and loss account.

3.12 Stores and spares

Stores and spares are valued at lower of moving average cost and net realisable value (NRV) except for stores in transit which are valued at cost. NRV is estimated based on management's experience and is also adjusted through systematic provision for obsolescence and slow moving items.

3.13 Trade debts

Trade debts are carried at original invoice amounts less an estimate made for doubtful receivables, if any, based on a review of all outstanding amounts at the year end. Bad debts are written off, when identified.

3.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash and cheques in hand and at banks and include short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

3.15 Revenue recognition

Sales are recorded on actual delivery of gas and other petroleum products.

Income on held-to-maturity investments is recognised on time proportion basis taking into account the effective yield of such investments.

Income on term deposits with banks is proportionately accrued upto the balance sheet date.

3.16 Joint ventures

The Company's share in transactions and balances related to joint venture operations in which the Company has a working interest are accounted for on the basis of the latest available cost statements. Estimates of expenditure are made for the intervening period upto the balance sheet date.

3.17 Foreign currency transactions and translation

Foreign currency transactions are recorded at the rates of exchange approximating those prevailing on the dates of transactions. Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange approximating those prevailing at the balance sheet date. Exchange differences are recognised in the profit and loss account.

3.18 Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised at the time when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are de-recognised at the time when the obligation specified in the contract is discharged, cancelled or expires.

3.19 Related party transactions

Related party transactions are stated at arm's length basis substantiated in the manner given in note 40 to the financial statements.

3.20 Off-setting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the balance sheet if the Company has a legal right to set off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.21 Recent accounting developments

A new series of standards called "International Financial Reporting Standards (IFRSs)" has been introduced and eight IFRSs have been issued by the International Accounting Standards Board (IASB). Out of these, following four IFRSs have been adopted by the SECP vide its S.R.O. 1228(I)/2006 dated December 06, 2006 which have become effective for accounting periods beginning on or after the said date:

(i) IFRS-2 "Share-based payment";
(ii) IFRS-3 "Business Combinations";
(iii) IFRS-5 "Non-current assets held for sale and discontinued operations"; and
(iv) IFRS-6 "Exploration for and Evaluation of Mineral Resources".

In addition, the SECP vide S.R.O. 430(I)/2007 dated May 22, 2007 has adopted International Accounting Standard (IAS)-41 "Agriculture" which is applicable for accounting periods beginning on or after May 22, 2007. Furthermore, a few IASs have been amended by the IASB including IAS-1 "Presentation of Financial Statements" and a few interpretations (IFRICs) have also been issued.

The Company has already adopted IFRS-6 and expects that the adoption of other pronouncements mentioned above will have no impact on the Company's financial statements in the period of initial application.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
4. SHARE CAPITAL		
Authorised		
1,000,000,000 (2006: 1,000,000,000) ordinary shares of Rs 10 each	10,000,000	10,000,000
26,510 (2006: 26,510) convertible preference shares of Rs 10 each	265	265
	10,000,265	10,000,265
Issued		
686,012,430 (2006: 686,011,810) ordinary shares of Rs 10 each - note 4.1	6,860,124	6,860,118
14,760 (2006: 15,380) convertible preference shares of Rs 10 each - note 4.2	148	154
	6,860,272	6,860,272
Subscribed and paid-up		
683,072,883 (2006: 683,072,263) ordinary shares of Rs 10 each for cash - note 4.1	6,830,728	6,830,722
2,750,000 (2006: 2,750,000) ordinary shares of Rs 10 each for consideration other than cash under an Agreement for Sale of assets dated March 27, 1952 with Burmah Oil Company Limited	27,500	27,500
	6,858,228	6,858,222
14,760 (2006: 15,380) convertible preference shares of Rs 10 each for cash - note 4.2	148	154
	6,858,376	6,858,376

4.1 Issued, subscribed and paid-up capital

During June 2002, a right issue of 653,170,040 ordinary shares of Rs 10 each was made to the existing shareholders, irrespective of class. Out of the above, 189,547 (2006: 189,547) shares have remained unsubscribed as on June 30, 2007.

In July 2004, the Government of Pakistan (GoP) has disinvested its equity equivalent to 15% of the paid-up share capital (i.e. 102,875,500 ordinary shares) of the Company through an Initial Public Offering.

4.2 Convertible preference shares

In accordance with article 3(iv) of the Company's Articles of Association, shareholders holding convertible preference shares have the right to convert all or any of their convertible preference shares into ordinary shares on the basis of one ordinary share for each convertible preference share converted, such conversion to take place upon the expiry of six months following service of written notice upon the Company Secretary by the holders of such convertible preference shares to that effect. During the year, eight (2006: nine) shareholders holding 620 (2006: 470) convertible preference shares exercised their option to convert those shares into ordinary shares.

The convertible preference shares have right to a dividend ranking pari passu with the level of dividend payable to the holders of ordinary shares subject, however, to a maximum rate of thirty percent per annum of the value of the total number of such convertible preference shares held. The convertible preference shares issued by the Company do not carry any fixed return and are convertible into ordinary shares. The Company is of the view that their characteristics are that of an equity instrument rather than a liability instrument and accordingly, these are treated to be as such.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
5. RESERVES		
Capital reserve - note 5.1	1,428	1,428
Revenue reserves		
General and Contingency reserve - note 5.2	69,761	69,761
Insurance reserve - note 5.3	2,000,000	1,000,000
Assets acquisition reserve - note 5.4	5,000,000	3,000,000
Unappropriated profit	26,168,486	19,258,982
	33,238,247	23,328,743
	33,239,675	23,330,171

5.1 Capital reserve

The amount of Rs 1.428 million represents consideration for the surrender of the right of the Mari North Mining Lease. In accordance with the transfer agreement with the GoP, the foregoing consideration has to be carried forward as capital reserve and cannot be distributed.

5.2 General and contingency reserve

The balance in general and contingency reserve account is constant since December 31, 1981. The reserve was built through appropriation from the available profit after taxation on a yearly basis to cater for unforeseen requirements. As at December 31, 1981 the balance available in the profit and loss account after appropriation of dividend for the year was transferred to the general and contingency reserve upon the coming into effect of the Sui Gas Well-head Price Agreement, 1982 (1982 GPA) which required inclusion of this reserve as a part of the shareholders' funds for qualifying for return under the 1982 GPA (now dismantled). Since then, this balance has remained constant.

5.3 Insurance reserve

Due to difficulty in obtaining insurance policy for terrorism, sabotage and civil commotion at reasonable premiums and deductibles, the Company has established an insurance reserve for self insurance cover against these risks and plans to build up this reserve in future years.

The Board of directors at their meeting held on August 10, 2007 have approved to transfer Rs 1,000 million (2006: Rs 1,000 million) from unappropriated profit to the insurance reserve.

5.4 Assets acquisition reserve

In view of the declining hydrocarbon reserves profile of the Company, it is intended to acquire producing reserves for which a separate assets acquisition reserve has been established and the Company plans to build up this reserve in future years.

The Board of directors at their meeting held on August 10, 2007 have approved to transfer Rs 2,000 million (2006: Rs 2,000 million) from unappropriated profit to the assets acquisition reserve.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

6. PROVISION FOR DECOMMISSIONING COST

Balance brought forward	1,608,707	1,899,545
Provision / adjustment during the year	102,676	(309,833)
Unwinding of discount - note 30	33,440	18,995
	1,744,823	1,608,707

This includes Rs 501.816 million (2006: Rs 454.688 million) representing the Company's share of the expected decommissioning cost of fields in which the Company is not an operator. The provision for decommissioning cost in respect of the Company's operated fields has been estimated by its in-house technical staff whereas the provision for the fields where the Company is not an operator is based on estimates provided by the respective operators of those fields. The provision has been discounted using a real discount rate of 2.84% per annum (2006: 2.2% per annum).

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

7. LONG -TERM LIABILITY FOR GAS DEVELOPMENT SURCHARGE

Gas development surcharge	231,289	918,167
Current maturity shown under current liabilities	(231,289)	(706,309)
	-	211,858

This represents the balance of overdue amount in respect of gas development surcharge (GDS) receivable from WAPDA (note 15) and subsequently payable to GoP. It has been agreed that WAPDA will pay this amount in installments equal to 7.5% of the current gas sales bills. Out of the total overdue amount of Rs 918.167 million as at June 30, 2006, amounts aggregating Rs 686.878 million have been received during the current year and the Company has also paid the GDS to GoP simultaneously upon receiving those amounts. According to the above arrangement, an aggregate amount of Rs 231.289 million is estimated to be recovered from WAPDA during the year ending June 30, 2008 and consequently payable to the GoP and therefore has been classified as current liability in these financial statements.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Present value of minimum lease payments	119,848	123,585
Current maturity shown under current liabilities	(50,696)	(44,236)
	69,152	79,349

These represent finance leases entered into with leasing companies. The periodic lease payments include built in rates of mark-up ranging between 6.15% to 16.00% per annum (2006: 6.15% to 15.25% per annum). The Company has the option to purchase the assets upon expiry of the respective lease terms.

The amounts of future payments for the lease and the period in which the lease payments will become due are as follows:

	Minimum lease payments		Financial charges		Present value of minimum lease payments	
	Rs '000					
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Year to June 30,						
2007	-	54,202	-	9,966	-	44,236
2008	60,823	47,227	10,127	8,264	50,696	38,963
2009	40,793	25,060	8,128	4,195	32,665	20,865
2010	21,621	13,782	4,559	2,223	17,062	11,559
2011	15,825	8,880	2,457	918	13,368	7,962
2012	6,627	-	570	-	6,057	-
Total	145,689	149,151	25,841	25,566	119,848	123,585

		June 30, 2007 Rs '000	June 30, 2006 Rs '000
9.	**DEFERRED LIABILITIES**		
	Post retirement medical benefits - note 28.2	522,599	462,731
	Leave preparatory to retirement - note 28.3	219,460	182,700
		742,059	645,431
10.	**TRADE AND OTHER PAYABLES**		
	Creditors	129,532	23,091
	Accrued liabilities	1,031,187	906,284
	Advances from customers	3,851	24,537
	Retention money	30,674	8,884
	Unclaimed dividends	42,628	33,341
	Gas development surcharge	745,345	855,258
	Federal excise duty	108,919	110,542
	Sales tax (net)	159,465	-
	Royalties	3,104,854	2,446,368
	Surplus due to the President - note 10.1	72,539	72,539
	Current account with Sui Southern Gas Company Limited (SSGCL)	-	1,752
	Current accounts with Joint Venture Partners - note 10.2 and 40.1	408,771	284,318
	Workers' profits participation fund - note 10.3	-	11,545
	Workers' welfare fund - note 11.1.4	1,348,589	96,603
	Others	34,114	28,898
		7,220,468	4,903,960

10.1 According to Article 3.4 of the 1982 GPA (now dismantled), the surplus or deficit arising as a result of gas price calculation was required to be settled in cash between the Company and the President (i.e. GoP) within forty five days of the receipt of the auditors' initialled accounts for that year provided however, that in the event of a surplus payable to the President, any tax paid in excess of the current taxation as disclosed by that year's audited accounts was to be paid to the President on recovery from the tax authorities upon finalisation of the Company's tax assessment for that year. Accordingly, these amounts of 'surplus' will be paid to the President upon finalisation of the relevant income tax assessments.

10.2 Joint venture current accounts (i.e. payable or receivable) as at June 30, 2007 have been stated net of the respective current assets and current liabilities, as providing details for each respective joint venture separately would be very exhaustive especially in view of the materiality of that information in the overall context of these financial statements.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
10.3 Workers' profits participation fund (WPPF)		
Balance as on July 01, 2006 / 2005	11,545	32,632
Allocation for the year - note 31	1,345,360	1,061,545
Interest on funds utilised in the Company's business - note 30	710	888
	1,357,615	1,095,065
Amount paid during the year		
- for current year	(1,350,710)	(1,050,888)
- for previous year	(11,545)	(32,632)
	(1,362,255)	(1,083,520)
	(4,640)	11,545
Receivable from WPPF classified under other receivables - note 23	4,640	-
Balance as on June 30	-	11,545

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

11.1.1 Indemnity bonds and corporate guarantees

Indemnity bonds (including share of joint venture areas) issued to custom authorities, redeemable after submission of usage certificate within five years	642,332	1,005,752
Corporate guarantees (including share of joint venture areas) issued to custom authorities, redeemable on receipt of necessary certification from regulatory authority or clarification from custom authorities	135,122	142,385

11.1.2 Pursuant to the directives of the Price Determining Authority, Ministry of Petroleum & Natural Resources, the Company is not taking credit for interest income receivable from WAPDA and no provision is being made for the interest payable to GoP on late payment of gas development surcharge.

11.1.3 The Company is contesting an appeal against the order of the Large Taxpayers Unit, which requires the Company to pay sales tax on LPG sales made from Adhi during the period August, 1999 to April, 2004.

However, in order to avail benefits under the amnesty scheme notified through S.R.O. 247(I)/2004 dated May 5, 2004, the Company has paid and charged to profit and loss account for the year ended June 30, 2004 sales tax and additional tax amounting to Rs 77.548 million and Rs 12.426 million respectively on sales of LPG made during the period August, 1999 to April, 2004. In case the adjudicating authority decides the case in favour of the Company, the amounts shall become refundable.

11.1.4 The Workers' Welfare Fund Ordinance (WWFO), 1971 is applicable on all the industrial establishments except for those establishments which are owned by the Government. The management based on advice of its lawyer, is confident that since majority of the shareholding of the Company is held by the GoP, therefore, WWFO does not apply to the Company. Accordingly, the Company had not provided for workers' welfare fund (WWF) effective from July 01, 2003.

The Company had filed appeals before the Income Tax Appellate Tribunal (ITAT) for refund of WWF paid for the years ended June 30, 1998 to June 30, 2002 on the above grounds. ITAT vide its order dated February 17, 2007 has decided the case against the Company. In view of the Order of the ITAT, the Company has decided to file reference application before the Sindh High Court and concurrently as a matter of prudence the Company has provided for the liability of WWF for the period from July 01, 2003 to June 30, 2007 amounting to Rs 1,251.986 million in the books of accounts against the profit for the current year. However, if the case is decided in favour of the Company, an amount of Rs 1,387.010 million will be credited in profit and loss account for that year.

11.1.5 During the year, the Company has revised the tax rates on certain producing fields in line with the provisions of Petroleum Concession Agreements (PCAs) and prevailing industry practices. The Company has also filed its tax return for the tax year 2006 on the same basis. This change has resulted in reduction in tax liability of Rs 326.533 million and Rs 344.323 million for the tax years 2006 and 2007 respectively.

In accordance with the requirements of Income Tax Ordinance, 2001 the Company also has the option to revise tax returns for the tax years 2003 to 2005 for which Company has yet to decide. In case the Company decides to revise the tax returns for the above years, an amount of Rs 390.989 million may become refundable to the Company.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
11.2 Commitments		
11.2.1 Capital expenditure		
Own fields	5,877,285	34,941
Share in joint ventures	6,742,247	4,364,711
	12,619,532	4,399,652

11.2.2 Exploration expenditure

The Company's share of net exploration activities in respect of Block 2568-13 (Hala), Block 2568-15 (Tajpur), Block 2668-4 (Gambat), Block 2668-5 (Southwest Miano II), Block 2669-3 (Latif), Block 2766-1 (Khuzdar), Block 2866-2 (Kalat), Block 2867-3 (Dadhar), Block 2966-1 (Nushki), Block 3370-3 (Tal), Block 3370-10 (Nashpa), Block 3372-12 (Kot Sarang), Block 2365-1 (Offshore Indus 'E'), Block 2366-7 (Offshore Indus 'C') , Block 2366-4 (Offshore Indus 'M') , Block 2366-5 (Offshore Indus 'N'), Block 2667-7 (Kirthar), Block 2969-8 (Barkhan), Block 2971-5 (Bahawalpur East), Block 2569-2 (Thar), Block 2469-8 (Umarkot), Block 2470-2 (Rajar), Block 2470-3 (Mithi), Block 3070-13 (Baska), Block-29 (Republic of Yemen), provision for new exploration areas and for international exploration phased for the year ending June 30, 2008 amounts to Rs 1,890 million (2007: Rs 1,872 million).

12. PROPERTY, PLANT AND EQUIPMENT

12.1 A summary of property, plant and equipment is as follows:

	Cost as at July 01, 2006	Additions / (deletions) / (adjustments)	Cost as at June 30, 2007	Accumulated Depreciation / amortisation as at July 01, 2006	Depreciation /amortisation charge for the year ended June 30, 2007	Accumulated Depreciation / amortisation as at June 30, 2007	Net book value as at June 30, 2007	Rate of depreciation/ amortisation (%)
	Rs '000							
Owned								
Freehold land	67,411	2,460	69,871	-	-	-	69,871	
Buildings and roads	463,273	54,998 (516)	517,755	137,685	23,578 (2)	161,261	356,494	5
Buildings and civil construction on freehold land for Sui Field Gas Compressor Station (SFGCS) comprising compression facilities for SML and SUL gas	472,580	- (2,019)	470,561	425,685	14,170 (2,019)	437,836	32,725	5 & 10
Equipment and piping for SFGCS comprising compression facilities for SML and SUL gas	5,825,077	459,511 (595)	6,283,993	4,600,536	393,813 (475)	4,993,874	1,290,119	10
Plant and machinery	8,080,347	1,187,265 (6,439) *2	9,261,173	3,735,157	728,665 (1,912)	4,461,910	4,799,263	10 & 100 *1
Furniture, fittings and equipment	444,506	131,973 *3 (199)	576,280	214,389	48,726 11,448	274,563	301,717	10 & 30
Tanks and pipelines	1,691,143	256,189 (10,482) *4	1,936,850	936,812	97,011 149	1,033,972	902,878	10
Rolling stock *7	132,050	6,081 (6,320)	131,811	113,320	5,405 (2,975)	115,750	16,061	20
Prospecting and development expenditure	1,687,410	1,377,676 (24,570) *5	3,040,516	372,253	135,644	507,897	2,532,619 *6	
Decommissioning cost	1,589,712	102,676	1,692,388	415,469	137,694	553,163	1,139,225 *6	
	20,453,509	3,578,829 (51,140)	23,981,198	10,951,306	1,584,706 4,214	12,540,226	11,440,972	
Assets subject to finance leases								
Furniture, fittings and equipment	74,039	13,417 (33,785) *3	53,671	18,393	18,725 (21,142)	15,976	37,695	10 & 30
Rolling stock *7	151,000	31,488 (4,259)	178,229	55,091	32,916 (4,707)	83,300	94,929	20
	225,039	44,905 (38,044)	231,900	73,484	51,641 (25,849)	99,276	132,624	
	20,678,548	3,623,734 (89,184)	24,213,098	11,024,790	1,636,347 (21,635)	12,639,502	11,573,596	
Capital work-in-progress							3,653,225	
					June 30, 2007		**15,226,821**	
Owned	19,229,991	1,676,188 7,988 (460,658)	20,453,509	9,565,840	1,433,543 1,856 (49,933)	10,951,306	9,502,203	
Assets subject to finance leases	152,881	88,208 (16,050)	225,039	40,546	37,864 (4,926)	73,484	151,555	
	19,382,872	1,764,396 7,988 (476,708)	20,678,548	9,606,386	1,471,407 1,856 (54,859)	11,024,790	9,653,758	
Capital work-in-progress							3,109,263	
					June 30, 2006		**12,763,021**	

*1 For below ground installations in fields other than Sui Gas Field.
*2 Includes Rs 2.853 million reversal of cost capitalised during previous year.
*3 Includes Rs 24.651 million transferred from leased assets after maturity of lease term.
*4 Includes Rs 10.451 million reversal of cost capitalised during previous year.
*5 Represents reversal of cost captalised during previous year.
*6 These are being amortised on unit of production basis.
*7 Represents light and heavy vehicles.

12.2 Property, plant and equipment disposed off during the year:

Description	Method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
			Rs '000			
Owned						
Equipment and piping for SFGCS						
Items having book value upto Rs 50,000	Auction / Tender	Various	595	460	135	65
Plant and machinery						
Drill collar 4950 - 8"	Written off		233	117	116	-
Drill collar 4950 - 8"	Written off		233	117	116	-
Drill collar 4950 - 8"	Written off		233	117	116	-
Items having book value upto Rs 50,000	Auction / Tender	Various	975	974	1	305
			1,674	1,325	349	305
Rolling stock						
Toyota Hilux pickup CK-7435	Tender	Mr. Abdul Ghaffar	850	425	425	424
Items having book value upto Rs 50,000	Auction / Tender	Various	4,845	4,845	-	6,965
			5,695	5,270	425	7,389
Furniture, fittings and equipment						
60 KVA UPS (Master Guard)	Tender	Mr. Hussain Wali Muhammad	3,124	2,473	651	687
Items having book value upto Rs 50,000	Auction / Tender	Various	8,054	7,635	419	834
			11,178	10,108	1,070	1,521
Tanks and pipelines						
Items having book value upto Rs 50,000	Written off		31	31	-	-
Building and civil construction - SFGCS						
Items having book value upto Rs 50,000	Written off		2,019	2,019	-	-
			21,192	19,213	1,979	9,280
Assets subject to finance leases						
Furniture, fittings and equipment						
Dell latitude D 810 Note book	Company policy	Mr. Amjad Ali (Ex Manager, Medical Services)	150	11	139	125
Rolling stock						
Toyota Corolla XLi, AGS-524	Company policy	Mr. Salahuddin Ahmed (Ex Manager, Coordination Production Operations)	849	269	580	545
Suzuki Cultus VXR, AHA-336	Company policy	Mr. F. A. Mazahary (Ex Chief Geologist)	560	149	411	404
Toyota Corolla XLi, AFM-974	Company policy	Mr. Amjad Ali (Ex Manager, Medical Services)	849	481	368	393
Suzuki Cultus VXR, AGF-947	Company policy	Mr. Salim Ullah (Ex Chief Industrial Relations Officer)	560	289	271	321
Suzuki Mehran VX, AHF-342	Company policy	Mr. Immad Uddin (Ex Senior Admin Officer)	310	67	243	269
Toyota Corolla XLi, AEK-824	Company policy	Mr. Nusrat Nasarullah (Ex Manager, Public Relations)	849	722	127	260
Suzuki Cultus VXR, AEK-277	Company policy	Mr. Usman E. Vawda (Ex Chief Medical Officer)	555	435	120	233
			4,532	2,412	2,120	2,425
			4,682	2,423	2,259	2,550
			25,874	21,636	4,238	11,830

12.3 Cost and accumulated depreciation include:

	Cost		Accumulated depreciation	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	Rs '000			
Share in joint ventures operated by the Company	1,794,507	1,177,271	605,751	437,834
Share in joint ventures operated by others (assets not in possession of the Company)	4,925,435	4,494,781	1,769,084	1,341,663
	6,719,942	5,672,052	2,374,835	1,779,497

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
12.4 Capital work-in-progress		
Plant, machinery, fittings and pipelines	1,218,485	1,311,546
Prospecting and development wells	2,311,678	1,674,534
Land, buildings and civil construction	31,570	25,841
Capital stores for drilling and development	91,492	97,342
	3,653,225	3,109,263

13. INTANGIBLE ASSETS

A summary of intangible assets is as follows:

	Cost as at July 01, 2006	Additions / (deletions)	Cost as at June 30, 2007	Accumulated amortisation as at July 1, 2006	Amortisation for the year / (on deletions)	Accumulated amortisation as at June 30, 2007	Net book value as at June 30, 2007	Rate of amortisation (%)
	Rs '000							
Computer software and ERP system	150,541	38,713 (3,098)	186,156	52,063	29,488 (2)	81,549	104,607	20%
	150,541	38,713 (3,098)	186,156	52,063	29,488 (2)	81,549	104,607	
Capital work-in-progress							45,720	
					June 30, 2007		**150,327**	
Computer software and ERP system	99,190	51,351	150,541	29,622	22,441	52,063	98,478	
Capital work-in- progress							8,084	
					June 30, 2006		**106,562**	

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
14. LONG-TERM INVESTMENTS		
Investments in related parties		
BME - a Joint Venture - note 14.1	15,000	15,000
Profit receivable from BME	164,760	142,128
	179,760	157,128
Fully paid shares in a subsidiary - note 14.2	1	1
Other investments		
Held-to-maturity		
- Term Finance Certificates - note 14.3	99,900	49,950
- Pakistan Investment Bonds - note 14.4	397,723	101,317
	497,623	151,267
	677,384	308,396

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

14.1 Bolan Mining Enterprises

14.1.1 The Company's interest in assets and liabilities of the joint venture is as follows:

Tangible fixed assets	11,699	9,230
Long-term investments and income accrued thereon	-	8,085
Current assets	220,886	192,193
	232,585	209,508
Current liabilities	14,140	16,790
Reserve for development and expansion	38,147	35,036
Leave preparatory to retirement	538	554
	52,825	52,380
Net assets	179,760	157,128

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000

14.1.2 The Company's share in profit and loss of the joint venture is as follows:

Sales	94,655	69,612
Cost of goods sold	(40,656)	(30,208)
	53,999	39,404
Operating expenses	(12,895)	(10,994)
Operating profit	41,104	28,410
Other income	16,010	10,614
	57,114	39,024
Transfer to reserve for development and expansion	(9,482)	(7,977)
	47,632	31,047
Reversal of profit excess booked in previous year	-	(9,999)
	47,632	21,048

14.2 Subsidiary company

The Pakistan Petroleum Provident Fund Trust Company (Private) Limited, a wholly owned subsidiary of the Company, has not made any profits nor incurred any losses from the date of its incorporation to June 30, 2007. The latest audited financial statements of the subsidiary are annexed. The paid-up capital of the subsidiary is Rs 1,000 divided into 100 ordinary shares of Rs 10 each.

In view of the exemption granted by the SECP through its letter CLD/RD/CO.237/PPL/2004 dated July 6, 2004 the Company has not prepared the consolidated financial statements for the year ended June 30, 2007 in respect of its investment in the aforementioned wholly owned subsidiary.

	Number of certificates	Nominal value of each certificate	Final maturity date	Implicit mark-up	June 30, 2007	June 30, 2006
		Rs		%	Rs '000	

14.3 Term Finance Certificates (TFCs) of a listed company

	Number of certificates	Nominal value of each certificate (Rs)	Final maturity date	Implicit mark-up (%)	June 30, 2007 (Rs '000)	June 30, 2006 (Rs '000)
Jahangir Siddiqui & Co. Ltd.	10,000	5,000	Dec 21, 2009	8.29	49,950	49,970
	10,000	5,000	Nov 21, 2011	12.66	49,990	-
					99,940	49,970
Current maturity of TFCs					(40)	(20)
					99,900	49,950

14.4 Pakistan Investment Bonds (PIBs) *

	Final maturity date	Implicit mark-up (%)	June 30, 2007 (Rs '000)	June 30, 2006 (Rs '000)
Issued on Jan 28, 2002	Jan 28, 2007	6.29	-	51,302
Issued on Mar 28, 2002	Mar 28, 2007	6.30	-	43,116
Issued on Mar 28, 2002	Mar 28, 2007	8.64	-	39,884
Issued on May 24, 2002	May 24, 2007	6.31	-	51,590
Issued on June 17, 2002	June 17, 2007	6.04	-	51,830
Issued on June 18, 2002	June 18, 2007	6.32	-	103,389
Issued on July 20, 2002	July 20, 2007	6.60	50,092	51,705
Issued on Dec 31, 2002	Dec 31, 2007	5.62	48,545	49,612
Issued on May 19, 2006	May 19, 2009	9.28	199,318	-
Issued on May 19, 2006	May 19, 2011	9.54	198,405	-
			496,360	442,428
Current maturity of PIBs			(98,637)	(341,111)
			397,723	101,317

* PIBs are held by various financial institutions on behalf of the Company.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

15. LONG-TERM RECEIVABLE

Unsecured and considered good:

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
WAPDA - notes 7 and 15.1	231,289	918,167
Current maturity shown under current assets	(231,289)	(706,309)
	-	211,858

15.1 Long-term receivable from WAPDA represents the balance amount of overdue gas development surcharge. A corresponding liability for this amount is stated in note 7.

16. LONG-TERM LOANS - STAFF

Unsecured and considered good:

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
- Executive staff - note 16.2	7,251	7,915
- Other employees	8,020	9,862
	15,271	17,777
Recoverable within one year - note 20		
- Executive staff	(2,587)	(2,532)
- Other employees	(1,831)	(2,554)
	(4,418)	(5,086)
	10,853	12,691

16.1 These represent house purchase / building, household appliances, generator and car / motorcycle loans disbursed to employees under the terms of employment and are repayable to the Company in accordance with the Company's rules over a maximum period of ten years.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
16.2 Reconciliation of the carrying amount of long-term loans to executives:		
Balance as on July 01, 2006 / 2005	7,915	5,776
Disbursements	1,568	3,202
Repayments / adjustments	(2,232)	(1,063)
Balance as on June 30	7,251	7,915

16.3 The maximum aggregate amount of loan due from the executive staff at the end of any month during the year was Rs 8.347 million (2006: Rs 7.915 million).

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
17. DEFERRED TAXATION		
Debit / (credit) balances arising on account of:		
Exploration expenditure	2,338,001	2,228,300
Accelerated tax depreciation allowances	(1,470,282)	(1,298,644)
Amortisation of intangible assets	(170)	(211)
Prospecting and development expenditure	(948,612)	(558,262)
Provision for staff retirement and other benefits	259,721	225,901
Provision for obsolete / slow moving stores	23,944	22,978
Provision for WWF	514,288	-
Others	(5,553)	(9,790)
	711,337	610,272
18. STORES AND SPARES		
Stores and spares	1,526,654	1,298,836
Stores and spares in transit	16,411	40,075
	1,543,065	1,338,911
Provision for obsolete / slow moving stores	(68,410)	(65,650)
	1,474,655	1,273,261

		June 30, 2007 Rs '000	June 30, 2006 Rs '000
19.	**TRADE DEBTS**		
	Unsecured and considered good:		
	Water and Power Development Authority (WAPDA)	1,440,089	1,528,080
	Sui Northern Gas Pipelines Limited (SNGPL)	4,683,121	4,172,483
	Sui Southern Gas Company Limited (SSGCL)	1,918,977	858,035
	Others	959,907	383,138
		9,002,094	6,941,736

19.1 Trade debts include an amount of Rs 8,065.780 million (2006: Rs 6,609.783 million) receivable from state controlled entities.

		June 30, 2007 Rs '000	June 30, 2006 Rs '000
20.	**LOANS AND ADVANCES**		
	Unsecured and considered good:		
	Loans and advances to staff - note 20.1	13,676	16,795
	Advances to suppliers and others	15,907	38,843
	Current maturity of long-term loans - staff - note 16	4,418	5,086
		34,001	60,724
20.1	**Loans and advances to staff**		
	- Executive staff	2,250	-
	- Other employees	11,426	16,795
		13,676	16,795
21.	**TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS**		
	Trade deposits	15,232	30,383
	Prepayments	106,661	107,416
	Sales tax refundable	-	6,700
	Recievable from Joint Venuture Partners - note 10.2	286,765	156,890
		408,658	301,389
22.	**ACCRUED FINANCIAL INCOME**		
	Profit receivable on bank deposits	18,600	19,860
	Profit receivable on long-term investments	7,248	7,754
	Profit receivable on term deposits with banks	90,907	61,913
		116,755	89,527

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

23. OTHER RECEIVABLES

Receivable from SSGCL for Sui field services	214	-
Receivable from SNGPL for Sui field services	1,019	2,395
Receivable from WPPF - note 10.3	4,640	-
Other receivables	15,796	9,922
	21,669	12,317

24. SHORT-TERM INVESTMENTS

Held-to-maturity term deposits with banks - note 24.1		
Local currency	18,450,309	15,062,252
Foreign currency	1,654,296	1,515,014
	20,104,605	16,577,266
At fair value through profit or loss - note 24.2		
NAFA Cash Fund	504,998	-
United Money Market Fund	303,167	-
Pakistan Income Fund	302,896	-
UTP Income Fund	201,555	-
	1,312,616	-
Current maturity of long-term investments - note 14.3 and 14.4	98,677	341,131
	21,515,898	16,918,397

24.1 The Company has reclassified its term deposits with banks as short-term investments. Previously, these investments were being classified as cash and bank balances. There is no effect of this change on the current and previous year's profit and loss account and retained earnings. The deposits have a maximum maturity period of three months.

24.2 Fair value of these investments are determined using their respective redemption / repurchase price.

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

25. CASH AND BANK BALANCES

At banks		
-Saving accounts		
Local currency	702,981	670,579
Foreign currency	13,966	3,225
	716,947	673,804
-Current accounts (local currency)	60,172	49,225
Cash and cheques in hand	10,265	26,608
	787,384	749,637

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
26. SALES - net (including internal consumption)		
Sales	51,079,679	43,565,270
Federal excise duty	(1,302,619)	(1,334,221)
Sales tax	(6,701,686)	(5,719,418)
Gas development surcharge	(4,692,729)	(4,754,919)
	(12,697,034)	(11,808,558)
	38,382,645	31,756,712
Product wise break up of sales is as follows:		
Natural gas sales	46,814,696	41,093,490
Federal excise duty	(1,291,074)	(1,322,767)
Sales tax	(6,145,534)	(5,398,422)
Gas development surcharge	(4,692,729)	(4,754,919)
	(12,129,337)	(11,476,108)
	34,685,359	29,617,382
Gas supplied to Sui villages - note 27.4	99,469	82,306
Federal excise duty	(4,469)	(4,592)
Sales tax	(12,974)	(10,736)
	(17,443)	(15,328)
	82,026	66,978
Internal consumption of gas - note 26.1	131,647	108,933
Federal excise duty	(5,920)	(6,089)
Sales tax	(17,171)	(14,209)
	(23,091)	(20,298)
	108,556	88,635
Condensate sales	1,015,328	447,005
Sales tax	(132,285)	(57,014)
	883,043	389,991
NGL (condensate) sales	1,465,017	769,435
Sales tax	(191,089)	(100,361)
	1,273,928	669,074
Crude oil sales	1,082,143	870,682
Sales tax	(141,149)	(113,567)
	940,994	757,115
LPG sales	471,379	193,419
Federal excise duty	(1,156)	(773)
Sales tax	(61,484)	(25,109)
	(62,640)	(25,882)
	408,739	167,537
	38,382,645	31,756,712

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000

26.1 Internal consumption of gas comprises of the following:

Industrial and domestic use	105,984	92,141
Gas used for electricity generation at Sui	25,663	16,792
	131,647	108,933

27. FIELD EXPENDITURE

Development and drilling	1,285,466	973,112
Exploration	2,201,017	2,003,067
Depreciation - note 12.1	1,363,009	1,266,642
Amortisation of intangible assets - note 13	29,488	22,199
Amortisation of decommissioning cost - note 12.1	137,694	120,668
Amortisation of prospecting and development expenditure - note 12.1	135,644	84,097
Salaries, wages and other benefits - note 27.1	2,096,103	1,896,994
Employees' medical and welfare - note 27.2	306,790	275,863
Travelling and conveyance	252,734	225,001
Communication	17,522	19,366
Stores and spares consumed	552,669	517,288
Fuel and power	180,836	144,018
Rent, rates and taxes	42,232	35,043
Insurance	130,111	122,989
Repairs and maintenance	302,452	189,691
Legal services	10,255	9,204
Audit and professional fee - note 27.3	2,950	2,067
Free supply of gas to Sui villages - note 27.4	99,469	82,306
Donations - note 27.5	16,465	38,705
Social welfare / community development	69,763	115,670
Other expenses	48,428	40,795
	9,281,097	8,184,785
Recoveries	(16,321)	(13,725)
	9,264,776	8,171,060

27.1 This includes expenditure in respect of provident fund, pension, gratuity and leave preparatory to retirement amounting to Rs 56.730 million, Rs 116.935 million, Rs 26.213 million and Rs 54.997 million respectively (2006: Rs 43.961 million, Rs 93.853 million, Rs 28.407 million and Rs 47.283 million respectively).

27.2 This includes expenditure relating to post retirement medical benefits amounting to Rs 75.737 million (2006: Rs 65.234 million).

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000

27.3 Breakup of audit and professional fee is as under:

Audit fee	1,200	1,000
Special certification and sundry advisory services	1,518	956
Out of pocket expenses	232	111
	2,950	2,067

27.4 A corresponding amount relating to free supply of gas to Sui villages is included as part of sales in note 26.

27.5 Donees include the following institutions in which a director, Mr. S. Munsif Raza is interested:

Nature of interest in Donee	Name and address of Donee	Year ended June 30, 2007	Year ended June 30, 2006
		Rs '000	
Chairman of the Board	Petroleum Institute of Pakistan 1st Floor, Federation House Block V, Kehkashan, Clifton, Karachi.	1,000	-
Chairman of the Board	Society of Petroleum Engineers (Pakistan Chapter) PIDC House Dr. Ziauddin Ahmed Road, Karachi.	122	800
Member, Board of Governors	Lahore University of Management Sciences, LUMS Sector U, DHA, Lahore Cantt.	5,000	5,000
		6,122	5,800

28. STAFF RETIREMENT BENEFITS

28.1 Funded post retirement pension and gratuity schemes

As mentioned in note 3.3 to the financial statements, the Company operates approved funded pension and gratuity schemes for all its executive and non-executive permanent employees.

28.1.1 Fair value of plan assets and the present value of obligations

The fair value of plan assets and the present value of defined benefit obligations of the pension and gratuity schemes at the valuation dates were as follows:

	Executives		Non-Executives		Total	
	Pension	Gratuity	Pension	Gratuity		
	June 30, 2007					June 30, 2006
	Rs '000					
Present value of defined benefit obligations	1,746,009	259,266	637,531	288,507	2,931,313	2,519,994
Fair value of plan assets	(1,498,380)	(257,721)	(590,078)	(233,296)	(2,579,475)	(2,324,587)
Deficit	247,629	1,545	47,453	55,211	351,838	195,407
Unrecognised actuarial loss	(247,629)	(1,545)	(55,585)	(55,211)	(359,970)	(194,858)
Unrecognised past service cost	-	-	-	-	-	(549)
Asset recognised in the balance sheet	-	-	(8,132)	-	(8,132)	-

28.1.2 Movement in amounts receivable from defined benefit plans

Movement in amounts receivable from staff retirement benefit funds during the year are as follows:

	Executives		Non-Executives		Total	
	Pension	Gratuity	Pension	Gratuity		
	June 30, 2007					June 30, 2006
	Rs '000					
Balance as on July 1, 2006 / 2005	-	-	-	-	-	(13,363)
Charge for the year - note 28.1.3	96,389	16,657	20,546	9,556	143,148	122,260
Payments during the year	(96,389)	(16,657)	(28,678)	(9,556)	(151,280)	(108,897)
Balance as on June 30	-	-	(8,132)	-	(8,132)	-

28.1.3 Amounts recognised in the profit and loss account

Amounts charged to the profit and loss account during the year in respect of pension and gratuity schemes are as follows:

	Executives		Non-Executives		Total	
	Pension	Gratuity	Pension	Gratuity		
	June 30, 2007					June 30, 2006
	Rs '000					
Current service cost	78,382	15,499	19,896	9,135	122,912	114,215
Interest cost	136,412	21,935	46,691	20,085	225,123	191,497
Expected return on plan assets	(120,603)	(21,326)	(46,041)	(19,664)	(207,634)	(184,663)
Amortisation of non-vested past service cost	-	549	-	-	549	549
Amortisation of actuarial loss	2,198	-	-	-	2,198	662
	96,389	16,657	20,546	9,556	143,148	122,260
Actual return on plan assets	(180,026)	(29,013)	(76,360)	(23,311)	(308,710)	(280,175)

28.2 Unfunded post retirement medical benefits

28.2.1 The Company provides free medical facilities to its executive and non-executive retired employees. The latest valuation of liability for post retirement medical benefit cost was carried out as at June 30, 2007, results of which are as follows:

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
Present value of defined benefit obligation	591,509	534,286
Unrecognised actuarial loss	(68,910)	(71,555)
Liability recognised in the balance sheet	522,599	462,731

28.2.2 Movement in the liabilities recognised in the balance sheet is as follows:

Balance as on July 1, 2006 / 2005	462,731	410,080
Charge for the year - note 28.2.3	75,737	65,234
Payments during the year	(15,869)	(12,583)
Balance as on June 30	522,599	462,731

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

28.2.3 Amounts charged to the profit and loss account during the year for the above benefits are as follows:

Current service cost	22,174	20,021
Interest cost	51,915	43,423
Amortisation of actuarial loss	1,648	1,790
	75,737	65,234

	June 30, 2007 Rs '000	June 30, 2006 Rs '000
28.3 Leave preparatory to retirement		
Movement in liability recognised in the balance sheet is as follows:		
Balance as on July 1, 2006 / 2005	182,700	137,973
Charge for the year	54,997	47,283
	237,697	185,256
Adjustment / payments	(18,237)	(2,556)
Balance as on June 30	219,460	182,700

	Per annum	
	June 30, 2007 Rs '000	June 30, 2006 Rs '000
28.4 Principal actuarial assumptions		
The significant assumptions used in the actuarial valuations are as follows:		
- discount rate	10%	9%
- expected rate of return on investment	10%	9%
- expected rate of increase in salaries	10%	9%
- expected rate of increase in pension	5%	4%
- expected rate of escalation in medical cost	6%	5%

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
29. OTHER OPERATING INCOME		
Income on loans and bank deposits	121,887	74,700
Income on term deposits	2,111,729	1,286,171
Income on long-term held-to-maturity investments	37,791	33,309
Gain on re-measurement of investments at fair value through profit or loss	12,616	-
Rental income on assets	2,103	4,554
Profit on sale of property, plant and equipment	7,592	7,335
Profit on sale of stores and spares (net)	17,032	2,289
Insurance claim	-	36,617
Late payment surcharge received from SSGCL	-	6,592
Exchange gain on foreign currency	2,772	9,074
Miscellaneous income from joint ventures	2,103	1,801
Share of profit on sale of LPG	90,996	12,756
Others	10,769	9,748
	2,417,390	1,484,946

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000

30. FINANCE COST

Interest on WPPF - note 10.3	710	888
Financial charges for liabilities against assets subject to finance leases	15,274	10,213
Unwinding of discount on decommissioning cost - note 6	33,440	18,995
	49,424	30,096

31. OTHER OPERATING EXPENSES

Workers' profits participation fund - note 10.3	1,345,360	1,061,545
Workers' welfare fund		
- Current year	497,076	-
- Prior years	754,910	-
	1,251,986	-
Provision for obsolete / slow moving stores	2,760	65,650
	2,600,106	1,127,195

32. TAXATION

Provision for taxation for the year ended June 30, 2007 has been calculated on the basis of tax rates of 55%, 50% and 40% for onshore agreement areas falling under the purview of the Fifth Schedule to the Income Tax Ordinance, 2001 and for the non-agreement areas on the basis of tax rate of 35% applicable for the tax year 2007.

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
Current		
- for the year	8,015,087	6,436,482
- for prior years	(325,026)	(32,393)
	7,690,061	6,404,089
Deferred		
- for the year	(42,970)	527,971
- for prior years	(58,095)	(143,528)
	(101,065)	384,443
	7,588,996	6,788,532

32.1 Relationship between accounting profit and taxation

Accounting profit for the year before taxation	24,356,770	20,189,533
Tax at applicable rate of 42.10% (2006: 44.11%)	10,255,325	8,905,641
Tax effect of amounts that are not deductible for tax purposes	228,406	193,116
Tax effect of depletion allowance and royalty allowed for tax purposes	(2,511,614)	(2,134,304)
Net effect of deferred tax relating to prior years recognised in current year	(58,095)	(143,528)
Tax charge relating to prior years	(325,026)	(32,393)
	7,588,996	6,788,532

33. INTERESTS IN JOINT VENTURES

The joint venture areas in which the Company has working interest are as follows:

Name of joint venture	Operator	Percentage of the Company's working interest as at June 30, 2007
Producing fields		
Adhi	PPL	39.00
Mazarani	PPL	87.50
Qadirpur	OGDCL	7.00
Miano	OMV	15.16
Sawan	OMV	26.18
Hasan, Sadiq and Khanpur - D&P (Block-22)	PEL	35.53
Manzalai - D&P (Tal Block)	MOL	27.76
Makori - EWT Phase (Tal Block)	MOL	27.76
Mela - EWT Phase (Nashpa Block)	OGDCL	26.05
Exploration and development blocks		
Within Pakistan		
Block 2568-13 (Hala)	PPL	65.00
Block 2568-15 (Tajpur)	PPL	100.00
Block 2668-4 (Gambat)	OMV	30.00
Block 2668-5 (South West Miano II)	OMV	33.33
Block 2669-3 (Latif)	OMV	33.30
Block 2766-1 (Khuzdar)	PPL	65.00
Block 2768-3 (Block 22- Hamza)	PEL	45.00
Block 2866-2 (Kalat)	PPL	65.00
Block 2867-3 (Dadhar)	PPL	45.66
Block 2966-1 (Nushki)	PPL	65.00
Block 3370-3 (Tal)	MOL	30.00
Block 3370-10 (Nashpa)	OGDCL	30.00
Block 3372-12 (Kot Sarang)	PPL	75.00
Block 2365-1 (Offshore Indus 'E')	Shell	20.00
Block 2667-7 (Kirthar)	POGC	30.00
Block 2969-8 (Barkhan)	PPL	50.00
Block 2971-5 (Bahawalpur East)	PPL	49.00
Block 2366-7 (Eastern Offshore Indus 'C')	Eni	40.00
Block 2366-4 (Eastern Offshore Indus 'M')	Eni	30.00
Block 2366-5 (Eastern Offshore Indus 'N')	Eni	30.00
Block 2569-2 (Thar)	Eni	25.00
Block 2470-2 (Rajar)	Eni	15.00
Block 2469-8 (Umarkot)	Eni	25.00
Block 2470-3 (Mithi)	Eni	15.00
Block 3070-13 (Baska)	ZhenHua	49.00
Outside Pakistan		
Block 29 (Republic of Yemen)	OMV	50.00

34. FINANCIAL INSTRUMENTS

The Company's exposure to profit / mark-up rate risk is as follows:

	Profit / mark-up rate	Profit / mark-up bearing			Non profit / mark-up bearing			June 30, 2007 Total	June 30, 2006 Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
	Percentage	Rs '000							
Financial assets									
Long-term investments	5.62 to 12.66	98,677	497,623	596,300	-	-	-	596,300	492,398
Long-term loans - staff	1.00 to 10.00	4,418	10,853	15,271	-	-	-	15,271	17,777
Trade debts		-	-	-	9,002,094	-	9,002,094	9,002,094	6,941,736
Loans and advances		-	-	-	29,583	-	29,583	29,583	55,638
Trade deposits		-	-	-	301,997	-	301,997	301,997	187,273
Accrued financial income		-	-	-	116,755	-	116,755	116,755	89,527
Other receivables		-	-	-	21,669	-	21,669	21,669	12,317
Short-term investments	5.00 to 11.50	20,104,605	-	20,104,605	1,312,616	-	1,312,616	21,417,221	16,577,266
Cash and bank balances	0.25 to 9.60	716,947	-	716,947	70,437	-	70,437	787,384	749,637
2007		20,924,647	508,476	21,433,123	10,855,151	-	10,855,151	32,288,274	25,123,569
2006		17,597,287	163,958	17,761,245	7,362,324	-	7,362,324	25,123,569	
Financial liabilities									
Liabilities against assets subject to finance leases	6.15 to 16.00	50,696	69,152	119,848	-	-	-	119,848	123,585
Trade and other payables		-	-	-	1,676,906	-	1,676,906	1,676,906	1,298,113
2007		50,696	69,152	119,848	1,676,906	-	1,676,906	1,796,754	1,421,698
2006		44,236	79,349	123,585	1,298,113	-	1,298,113	1,421,698	
Off balance sheet items									
Letters of credit								5,561,810	978,772
Letters of guarantee								135,122	142,385
Indemnity bonds								642,332	1,005,752

34.1 Financial risk management objectives

The Company's activities expose it to a variety of financial risks, including the effect of changes in foreign exchange rates, market interest rates such as State Bank of Pakistan's Treasury Bill rate and credit and liquidity risks associated with various financial assets and liabilities respectively.

(a) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts, investments in TFCs and mutual funds and balances at banks. The credit risk on investments and liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. However, the Company monitors its investments in TFCs and mutual funds and placements with banks in order to control credit risk. The Company has maintained lines and limits with banks for effective monitoring of credit risk.

The Company's major portion of sales is to WAPDA, SNGPL and SSGCL. However, it does not consider itself to be exposed to any substantial credit risk as these companies are state controlled entities.

(b) Foreign currency risk

Financial assets include Rs 1,668.262 million (2006: Rs 1,518.239 million) and financial liabilities include Rs 5,561.810 million (2006: Rs 978.772 million) which were subject to foreign currency risk. The US dollar deposits also serve as a synthetic hedge against the Company's exposure to foreign currency risk resulting from outstanding payments for imports.

(c) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

(d) Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate to their fair values.

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
35. CASH GENERATED FROM OPERATIONS		
Profit before taxation	24,356,770	20,189,533
Adjustment for non cash charges and other items:		
Amortisation of decommissioning cost	137,694	120,668
Amortisation of prospecting and development expenditure	135,644	84,097
Amortisation of intangible assets	29,488	22,199
Amortisation of premium / discount on PIBs	12,217	13,328
Share of profit in Bolan Mining Enterprises	(47,632)	(21,048)
Depreciation	1,363,009	1,266,642
Profit on sale of property, plant and equipment	(7,592)	(7,335)
Income on loans and bank deposits	(121,887)	(74,700)
Income on term deposits	(2,111,729)	(1,286,171)
Income on long-term held-to-maturity investments	(37,791)	(33,309)
Gain on re-measurement of investments at fair value through profit or loss	(12,616)	-
Finance cost	49,424	30,096
Increase in deferred liabilities	96,628	97,378
Working capital changes - note 35.1	(35,142)	(926,682)
	23,806,485	19,474,696
35.1 Working capital changes		
Increase / (decrease) in current assets		
Stores and spares	201,394	(17,916)
Trade debts	2,060,358	2,359,156
Loans and advances	(26,723)	14,346
Trade deposits and short-term prepayments	107,269	(339,561)
Other receivables	9,352	(43,242)
	2,351,650	1,972,783
Increase in trade and other payables	(2,316,508)	(1,046,101)
	35,142	926,682

	June 30, 2007 Rs '000	June 30, 2006 Rs '000

36. CASH AND CASH EQUIVALENTS

Cash and bank balances - note 25	787,384	749,637
Short-term highly liquid investments - note 24	20,104,605	16,577,266
	20,891,989	17,326,903

37. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives	
	Year ended June 30, 2007	Year ended June 30, 2006	Year ended June 30, 2007	Year ended June 30, 2006
	Rs '000			
Managerial remuneration	12,185	6,715	455,778	338,555
Housing, conveyance and utilities	2,233	2,075	157,390	115,623
Retirement benefits	131	1,206	102,919	72,293
Bonus	338	273	6,417	38,529
Other benefits	817	659	72,795	51,774
	15,704	10,928	795,299	616,774
Number of persons	1	1	291	219

Certain executives including the Chief Executive of the Company are also provided with free use of Company's cars in accordance with their entitlements.

Aggregate amount charged in these financial statements in respect of fees paid to eleven directors was Rs 0.018 million (2006: Rs 0.021 million for eleven directors).

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000

38. BASIC EARNINGS PER SHARE

Profit after taxation	16,767,774	13,401,001
Dividend on convertible preference shares	(44)	(55)
Profit attributable to ordinary shareholders	16,767,730	13,400,946
Number of ordinary shares in issue	685,822,883	685,822,263
Basic earnings per share	Rs 24.45	Rs 19.54

38.1 Profit after taxation has been adjusted for dividend to a maximum rate of thirty percent per annum of the value of the total number of convertible preference shares held.

38.2 The outstanding convertible preference shares on June 30, 2007 and 2006 will not result in any material impact on the Company's basic earnings per share, accordingly, diluted earnings per share has not been disclosed.

39. FINAL DIVIDEND

The Board of Directors of the Company in their meeting held on August 10, 2007 have recommended final cash dividend @ 65% amounting to Rs 4,457.849 million for the year ended June 30, 2007 (2006: 55% cash dividend amounting to Rs 3,772.023 million) on the existing paid up value of the ordinary share capital of the Company and 10% bonus shares (68,582,288 shares) i.e. one share for every ten shares held (2006: Nil), for approval of the shareholders of the Company in the Annual General Meeting to be held on October 30, 2007.

40. TRANSACTIONS WITH RELATED PARTIES

	Year ended June 30, 2007 Rs '000	Year ended June 30, 2006 Rs '000
40.1 Transactions with related parties are as follows:		
Sale of gas / condensate to state controlled entities	46,891,817	41,186,739
Trade debt receivable from state controlled entities	See note 19	
Purchase of goods from BME	16,130	14,740
Reimbursement of employee cost upon secondment to BME	5,041	4,522
Receipt of profit from BME	25,000	10,000
Amount receivable from / (payable to) Joint Venture Partners	See note 21 &10.2	
Income from rental of assets to Joint Ventures	2,103	4,554
Income from sale of stores and spares to Joint Ventures	13,740	-
Transactions with retirement benefit funds	See note 28	
Remuneration to key management personnel	See note 37	

40.2 Gas sales are made to various state controlled utility organizations, at prices notified by the GoP. Transactions with Bolan Mining Enterprises for purchase of goods are conducted at prices determined by reference to comparable goods sold in an economically comparable market to a buyer unrelated to the seller.

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 10, 2007 by the Board of Directors of the Company.

42. GENERAL

42.1 NUMBER OF EMPLOYEES

Number of permanent employees as at June 30, 2007 was 2,583 (2006: 2,520).

42.2 CAPACITY AND PRODUCTION

Considering the nature of the Company's business, the information regarding capacity has no relevance.

42.3 LEVEL OF PRECISION

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

42.4 CORRESPONDING FIGURES

Corresponding figures, wherever necessary, have been bifurcated and rearranged. Only material re-classification has been disclosed in note 24.

Director

Chief Executive

Auditors' Report to the Members

We have audited the annexed balance sheet of The Pakistan Petroleum Provident Fund Trust Company (Private) Limited (the Company) as at June 30, 2007 together with the notes thereto, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statement in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statement is free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statement. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statement. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account; and

(ii) no expenditure was incurred and no investments were made during the year;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet together with the note thereto conform with approved accounting standards as applicable in Pakistan, and, gives the information required by the Companies Ordinance, 1984, in the manner so required and respectively gives a true and fair view of the state of the Company's affairs as at June 30, 2007; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

CHARTERED ACCOUNTANTS

Karachi
10 August, 2007

Balance Sheet as at June 30, 2007

	June 30, 2007 Rupees	June 30, 2006 Rupees
SHARE CAPITAL		
Authorised, issued and fully paid-up 100 (2006: 100) ordinary shares of Rs 10 each (note 3)	1,000	1,000
ASSET		
Current account with a bank	1,000	1,000

Notes:

1) The Pakistan Petroleum Provident Fund Trust Company (Private) Limited was incorporated in Pakistan as a private limited company on November 07, 1955. The Company is engaged in administrating the trusts formed for the benefit of the employees of Pakistan Petroleum Limited.

2) These accounts have been prepared in accordance with the requirements of the Companies Ordinance, 1984. A profit and loss account has not been prepared as the Company had no revenue or cash transactions during the years ended June 30, 2007 and June 30, 2006. All administrative costs incurred are borne by the parent company - Pakistan Petroleum Limited.

3) Hundred percent equity of the Company is owned by its parent company- Pakistan Petroleum Limited.

Director

Chief Executive

List of Producing and Exploration Assets

	PPL Working Interest (%)	Operator
Producing Fields / Discoveries		
Sui	100.00	PPL
Kandhkot	100.00	PPL
Adhi	39.00	PPL
Mazarani	87.50	PPL
Qadirpur	7.00	OGDCL
Miano	15.16	OMV
Sawan	26.18	OMV
Block-22 (Hasan, Sadiq and Khanpur)	35.53	PEL
Manzalai and Makori (Tal Block)	27.76	MOL
Mela (Nashpa Block)	26.05	OGDCL
Exploration Blocks		
Onshore		
Nushki	65.00	PPL
Dadhar	45.66	PPL
Hala	65.00	PPL
Khuzdar	65.00	PPL
Kalat	65.00	PPL
Tajpur *	100.00	PPL
Barkhan	50.00	PPL
Bahawalpur East	49.00	PPL
Tal	30.00	MOL
Nashpa	30.00	OGDCL
South West Miano II	33.30	OMV
Latif	33.30	OMV
Gambat	30.00	OMV
Block-22 (Hamza)	45.00	PEL
Kirthar	30.00	POGC
Thar	25.00	ENI
Umarkot	25.00	ENI
Rajar	15.00	ENI
Mithi	15.00	ENI
Baska	49.00	ZHENHUA
Offshore		
Offshore Indus E	20.00	SHELL
Eastern Offshore Indus C	40.00	ENI
Offshore Indus M	30.00	ENI
Offshore Indus N	30.00	ENI
International		
Block-29 Yemen **	50.00	OMV

* Farm out of 30% working interest in progress
** PSA under negotiation

List of Abbreviations

ABBREVIATION	DESCRIPTION
AGM	Annual General Meeting
API	American Petroleum Institute
BHP	Bottom Hole Pressure
BME	Bolan Mining Enterprises
BPD	Barrels per day
CBA	Collective Bargaining Agent
CEO	Chief Executive Officer
CER	Carbon Emission Reduction
CPECC	China Petroleum Engineering and Construction Corporation
CSR	Corporate Social Responsibility
DHQ	District Head Quarter
E&P	Exploration and Production
EIA	Environment Impact Assessment
EL	Exploration License
ENI	ENI Pakistan Limited
EPA	Environmental Protection Agency
EPCC	Engineering, Procurement, Construction and Commissioning
EWT	Extended Well Testing
FEED	Front-End Engineering and Design
G & G	Geological & Geophysical
GHPL	Government Holdings (Pvt.) Limited
HSE	Health, Safety and Environment
HSFO	High Sulphur Fuel Oil
ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost & Management Accountants of Pakistan
IEE	Initial Environment Examination
ISO	International Organization for Standardization
IT	Information Technology
KM	Kilometer
KUFPEC	Kuwait Foreign Petroleum Exploration Company
LPG	Liquified Petroleum Gas
LRBT	Layton Rahmatulla Benevolent Trust
LTU	Large Taxpayers Unit
M	Meter
MGCL	Mari Gas Company Limited
MMSCFD	Million standard cubic feet per day
MND	Moravske Naftov Doly
MOL	MOL Pakistan Oil and Gas BV
NEQS	National Environment Quality Standards
NGL	Natural Gas Liquids
OGDCL	Oil and Gas Development Company Limited
OHSAS	Occupational Health and Safety Assessment System
OMV	OMV (Pakistan) Exploration GmbH
PCP	Pakistan Centre for Philanthropy
PEL	Petroleum Exploration (Pvt.) Limited
PEII	Pyramid Energy International Incorporated
PKP	Premier Kufpec Pakistan
POGC	Polish Oil & Gas Company
POL	Pakistan Oilfields Limited
PPL	Pakistan Petroleum Limited
PSA	Production Sharing Agreement
QMS	Quality Management System
SAP	System Application Products in Data Processing
SMART	Self Monitoring and Reporting Tool
SNGPL	Sui Northern Gas Pipelines Limited
SSGCL	Sui Southern Gas Company Limited
SQ. KM	Square Kilometer
SUL	Sui Upper Limestone
TCF	Trillion Cubic Feet
WAN	Wide Area Network
WAPDA	Water and Power Development Authority
WTO	World Trade Organization
ZHENHUA	China ZhenHua Oil Co. Ltd.

Notice of Annual General Meeting

NOTICE is hereby given that the fifty sixth Annual General Meeting of the Company will be held at Pearl Continental Hotel, Karachi on Tuesday, 30 October, 2007, at 10:00 a.m. for transacting the following business:

Ordinary Business

1. To receive and consider the Report of Directors and the Audited Balance Sheet and Accounts of the Company, together with the Auditors' Report thereon, for the financial year ended 30 June, 2007.

2. To approve, as recommended by the Directors, the payment of a final dividend of sixty five percent (65%) on the paid-up Ordinary Share Capital for the financial year ended 30 June, 2007 in addition to an interim dividend of forty five percent (45%) on the paid-up Ordinary Share Capital and thirty percent (30%) on the paid-up Convertible Preference Share Capital which was paid to the shareholders on 29 March, 2007.

3. To appoint Auditors and fix their remuneration.

Special Business

4. To approve, as recommended by the Directors, issue of bonus shares in the proportion of 1 Ordinary share for every 10 Ordinary shares held by the Members.

5. To approve changes in the Company's Articles of Association.

A Statement under Section 160 of the Companies Ordinance, 1984 pertaining to the Special Business is being sent to the shareholders along with this Notice.

By Order of the Board

M. YAQUB
Company Secretary

Registered Office:
P.I.D.C. House
Dr. Ziauddin Ahmed Road
Karachi

8 October, 2007

NOTES:

1. The Share Transfer Books of the Company will be closed from 20 October, 2007 to 30 October, 2007 (both days inclusive) when no transfer of shares will be accepted for registration. Transfers received in order at the office of our Share Registrars M/s Ferguson Associates (Pvt) Ltd, 4th Floor, State Life Building No. 2-A, I.I. Chundrigar Road, Karachi-74000 by the close of business on 19 October, 2007 will be in time for the purpose of payment of final dividend and issue of bonus shares to the transferees.

2. A Member entitled to be present and vote at the meeting may appoint another Member as proxy to attend, speak and vote instead of him. Forms of Proxies, duly stamped and signed, and the power of attorney or other authority (if any) under which they are signed or a notarially certified copy of that power or authority must be deposited at the Share Registrar's office, M/s Ferguson Associates (Pvt) Ltd, 4th Floor, State Life Building No. 2-A, I.I. Chundrigar Road, Karachi-74000 not later than 48 hours before the time of the meeting.

3. The CDC account holders will have to follow the under mentioned guidelines as laid down by the Securities & Exchange Commission of Pakistan:

   a) For attending the meeting:

   In case of individuals, the account holders or sub-account holders and/or the persons whose shares are in group accounts and their registration details are uploaded as per CDC Regulations shall authenticate their identity by showing their original Computerized National Identity Cards (CNICs) or original passports at the time of attending the meeting.

   In case of corporate entities, the Board of Directors' resolution/power of attorney with specimen signature of the nominees shall be produced (unless it has been provided earlier) at the time of the meeting.

   b) For appointing proxies:

   (i) In case of individuals, the account holders or sub-account holders and/or persons whose shares are in group accounts and their registration details are uploaded as per CDC Regulations, shall submit the proxy forms as per the above requirements.

(ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

(iii) Attested copies of CNICs or the passports of the individuals referred to at (i) above and the proxies shall be furnished with the proxy forms.

(iv) The proxies shall produce their original CNIC or original passport at the time of the meeting.

(v) In case of corporate entities, the Board of Directors' resolution/ power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity, shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

4. Shareholders are requested to notify any change in their address immediately to our Share Registrars M/s Ferguson Associates (Pvt.) Ltd.

5. Copies of the minutes of the Annual General Meeting held on 30 October, 2006 will be available to the Members on request free of charge.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE 1984

This statement sets out the material facts concerning the Special Business to be transacted at the fifty sixth Annual General Meeting of the Company to be held on 30 October, 2007.

1. Issue of Bonus Shares to Members

The Directors in their meeting held on 10 August, 2007 have recommended issue of bonus shares in proportion of 1 ordinary share for every 10 ordinary shares held (10%) by the Members.

The following Resolution is therefore proposed to be passed as Ordinary Resolution:

RESOLVED THAT:

(i) A sum of Rs 685,823,113 be capitalized out of the free reserves of the Company and applied towards issue of 68,582,311 ordinary shares of Rs 10 each as bonus shares in the proportion of one ordinary share for every ten ordinary shares held by the Members whose names appear on the Member Register at the close of the business on 19 October, 2007. These bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the final dividend declared for the year ended 30 June, 2007.

(ii) Members entitled to fraction shares as a result of their holding either being less than ten ordinary shares or in excess of an exact multiple of ten ordinary shares shall be given the sale proceeds of their fractional entitlement for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.

(iii) The Company Secretary be and is hereby authorized to give effect to this resolution and to do and cause to be done all acts, deeds and things that may be necessary or required for issue, distribution of the said bonus shares or payment of the sale proceeds of the fractions.

The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

2. Amendment in the Company's Articles of Association

Articles 32 and 88 of the Articles of Association of the Company are proposed to be amended so as to bring the same in conformity with the recent changes made in sections 158 and 233 of the Companies Ordinance, 1984 by the Finance Act, 2007.

Pursuant to the change, every company is now required to hold Annual General Meeting (AGM) and present annual financial statements for consideration of the Members within a period of 'three months' after the close of financial year instead of 'four months' previously allowed by law.

For this purpose it is intended to propose the following resolutions to be passed as Special Resolutions:

(i) "RESOLVED THAT the words "four months" appearing in the third line in Article 32 of the Articles of Association be and are hereby substituted by the words "three months".

(ii) "RESOLVED THAT the words "four months" appearing in the second line in Article 88 of the Articles of Association be and are hereby substituted by the words "three months".

Form of Proxy

The Secretary
Pakistan Petroleum Limited
PIDC House
Dr. Ziauddin Ahmed Road
Karachi.

I/We ____

of ______________________________ being a Member of PAKISTAN PETROLEUM LIMITED

and holder(s) of ____________ ordinary shares as per Share Register Folio No. ____________

For beneficial owners as per CDC List

CDC Participant I.D. No. ________________ Sub Account No. ________________

CNIC No. ☐☐☐☐☐■☐☐☐☐☐☐☐■☐ Passport No. ________________

hereby appoint ____________ of ____________ who is also a Member of the Company, Folio No ____________ or failing him/her ____________ of ____________, who is also a Member of the Company, Folio No. ____________ as my/our proxy to vote and act for me/our behalf at the Fifty-Sixth Annual General Meeting of the Company to be held on 30 October, 2007 and at any adjournment thereof.

Signed this ________ day of October, 2007

Please Affix
Rupees Five
Revenue
Stamp

Signature of Member
(Signature should agree with the specimen signature registered with the Company)

For beneficial owners as per CDC list

1. WITNESS	**2. WITNESS**
Signature: ________________	Signature: ________________
Name: ________________	Name: ________________
Address: ________________	Address: ________________
CNIC No: ☐☐☐☐☐■☐☐☐☐☐☐☐■☐	CNIC No: ☐☐☐☐☐■☐☐☐☐☐☐☐■☐
or Passport No: ________________	or Passport No: ________________

Note:
Proxies, in order to be effective, must be received at the Shares Registrar's office, M/s Ferguson Associates (Pvt.) Ltd., 4th Floor, State Life Building No. 2-A, I.I. Chundrigar Road, Karachi- 74000 not later than 48 hours before the meeting.

The CDC shareholders and their proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission.