

Directors' Report - 2014

The Board of Directors of Khyber Pakhtunkhwa Oil & Gas Company Limited is pleased to present this report along with audited financial statements together with Auditors' Report for the year ended June 30, 2014.

State of the Company's affairs

Pursuant to 18th amendment in the Constitution of Pakistan, the right of provinces over natural gas produced in the province was granted.

Khyber Pakhtunkhwa Oil & Gas Company Ltd. (KPOGCL) was incorporated in February, 2013 with Authorized Capital of Rs. 1 Billion and Paid-up capital of Rs. 500 Million. So far it is the only provincial oil and gas Exploration & Production Company making strides. The company was incorporated as public limited company under the provision of the Companies Ordinance 1984.

During January 2014, Mr. Muhammad Raziuddin was appointed as full time Chief Executive of the company.

The Company has entered into joint ventures with Oil & Gas Development Company Limited in Baratai & Pezu Concessions and with Mari Gas Company Limited in Peshawar East Concession and has signed Deeds of assignment in the subsequent period.

KPOGCL has entered into JV share (investment) in the following Exploration Blocks with Deed of Agreements signed with the approval of BOD:

- a. Baratai 2.5%
- b. Pezu 1.62%
- c. Kulachi 2.05%
- d. Karak North 2.50%
- e. Peshawar East 1.81%

The company has been paying cash calls raised by operators and participating in Technical, Finance and Operating Committee Meetings of Joint Venture partners.

Operational results

The company has not yet commenced generating and revenue however, it has been participating in bidding in connection with provisions of technical services to various joint ventures being operated by other companies. Financial results for the year are as follows:

	2013-14
	Pak Rupees
Revenue	-
Operating Expenses	(17,341,136)
Other Income	22,371,010
Profit before taxation	5,029,874
Taxation – Current	(17,000)
Deferred	(7,589,143)
Loss after tax	(2,576,269)

Directors' Report - 2014

Deferred taxation charge is related to tax obligation on other income which is considered as separate block of income received subsequent to year end, to be taxed @ 34%.

Reasons for incurring losses

During the year under review, the company was in the pre commencement stage, setting up office and hiring of senior and middle management, technical & professional staff. The expenses incurred by company were partly compensated by other income generated from placement of equity funds with the banks. This has resulted in reduction of losses after tax amounting to Rs 2.57 millions as against total operating expenses of Rs 17.341 million incurred during the year.

Key operating and financial data

The financial & production data for previous years is as follows:

	2013-14	Feb to Jun 2013
	Rs.	Rs.
Revenue	-	-
Operating Expenses	(17,341,136)	(50,000)
Other Income	22,371,010	-
Profit/ (loss) before taxation	5,029,874	(50,000)
Taxation – Current	(17,000)	-
- Deferred	(7,589,143)	-
Loss after tax	(2,576,269)	(50,000)

Reasons for variation since last year

The Company was incorporated with SECP in February 2013; however, no activities started until the appointment of full time Chief Executive in January 2014.

Appointment of Auditors

The present auditors M/s KPMG Taser Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2014 and shall retire on the conclusion of the Annual General Meeting. In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the reappointment of M/s KPMG Taser Hadi & Co., as auditors for the year 2014-15.

Government levies

The company has obtained National Tax Number and payments related to withholding tax have been made. Withholding tax outstanding as on June 30, 2014 amounted to PKR 3.6 million as disclosed in note 6 of the audited financial statements has been paid by the company subsequent to the year end.

Directors' Report - 2014

Auditors' report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2014.

Pattern of Shareholding

The pattern of shareholding of the Company as on June 30, 2014 is as under;

Shareholder	Percentage	Number of Shares
Government of Khyber Pakhtunkhwa	99.999940	4,999,997
Mr. Syed Badshah Bukhari	00.000020	1
Mr. Sahabzada Saeed Ahmed	00.000020	1
Mr. Shumail Butt	00.000020	1
Total	100.000000	5,000,000

Earnings per share

KPOGCL has not yet commenced commercial operations hence earning per share of the company as on June 30, 2014 is Rs. -0.52 (2013: Rs -0.010) per share

Corporate Governance & Financial Reporting Framework

As required by Public Sector Companies (Corporate Governance) Rules 2013, we are pleased to report the following;

- The financial statements prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of the Company have been maintained
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- The appointment of Chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interest of the Public Sector Company as well as in line with the best practices.

Election of Directors

The existing directors represent those who subscribed to memorandum and nominated by Government of Khyber Pakhtunkhwa. According to Section 183 Certain provisions not to apply to directors representing special interest, provisions regarding election, term of office and removal of directors do not apply to the directors appointed/nominated by the Provincial Government.

Acknowledgement

At the end, we would like to state that the operational and financial performance of KPOGCL is attributable to the ongoing collaboration with all the Company's stakeholders. In this respect, we are thankful to the Energy and Power Department of Khyber Pukhtunkhwa, Finance Department and other

Directors' Report - 2014

divisions and departments of provincial government for their resolute support and cooperation extended to the Company. I would also like to convey my sincere appreciation to the Company's Board of Directors for their prudent role and invaluable counsel along with expressing my gratitude to the Company's shareholders for bestowing confidence and trust in KPOGCL. At the end, I would like to pay due credit to the employees working at all levels in the Company, while optimistically looking forward to the leading role KPOGCL will play in E&P industry of Khyber Pukhtunkhwa as well as Pakistan in not only addressing energy challenges but in parallel returning significant value to the shareholders in a socially responsible manner.

On behalf of the Board

April 16, 2015

Signature: _____

Chief Executive: _____

Signature: _____

Director: _____