

Directors' Report

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, 2016.

The present Board of Directors comprise of following;

Mr. Tariq Iqbal Khan	Chairman
Mr. Engr Muhammad Naeem Khan	Director (Secretary Energy & Power, KPK)
Mr. Ali Raza Bhutta	Director (Secretary Finance, KPK)
Mr. Shakeel Qadir	Director (Secretary Home & Tribal Affairs, KPK)
Mr. Mussarrat Hussain	Director (Commissioner Kohat)
Mr. Haji Muhammad Afzal	Director (President Khyber Pakhtunkhwa Chamber of Commerce)
Mr. Amin Mukaty	Director
Mr. Shumail Butt	Director
Mr. Khurshid Anwer	Director
Sahibzada Muhammad Naeem	Director
Mr. Raziuddin	Chief Executive

The Board appreciated the professional acumen and services rendered by the outgoing directors and welcomed the new members.

State of the Company's affairs

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. On the recommendation of BOD the Government of Khyber Pakhtunkhwa injected equity investment of Rs 1.4 Billion in KPOGCL during the FY 2015-16. Due to non-injection of equity requested by the Board the progress of not only KPOGCL has been retarded but the overall Oil & Gas production of KP has suffered. Recently KPOGCL presented a cash requirement of Rs. 10.591 billion which is yet to be allocated this may further aggravate the Oil & Gas position of KP and further retard the progress of KPOGCL. The Board requests the Government of KP to inject equity as soon as possible.

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The Company has entered into joint ventures with Oil & Gas Development Company Limited in Baratai, Pezu & Kulachi Concessions, with MPCL in Peshawar East Concession, with Tallahassee in Karak North Concession & with KUFPEC in Paharpur concession.

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

- a. Baratai Joint Venture with 2.5% working interest
- b. Pezu Joint Venture with 1.62% working interest
- c. Kulachi Joint Venture with 2.05% working interest
- d. Peshawar East Joint Venture with 1.81% working interest

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

KPOGCL has entered the oil and gas Exploration & Production **Services** as well:

- a. Offered/Conducted the Geological field work and Mapping in number of Concession Blocks.
- b. KPOGCL assisted a number of oil and gas Exploration & Production and Services companies in getting NOCs expeditiously thus fast tracking the projects.
- c. Due to relentless pursuit a number of dormant Petroleum Concession Blocks were activated.
- d. Exploration & Production and services companies assisted in scouting/survey of a number of petroleum concession blocks.
- e. On the job Training of geologists, geophysicists, petroleum engineers and other professionals underway.
- f. KPOGCL plans to drill an exploratory well in Lakki block by October 2017

KPOGCL assisted Energy & Power Department in a number of issues.

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Operational results

The company generated revenues of Rs 119,233,061/- during the FY 2015-16 with a gross profit of Rs. 7,970,876/-.

	2015-16
	Pak Rupees
Revenue	119,233,061
Cost of services	(111,262,185)
Gross Profit	7,970,876
Exploration Expenses	(51,674,034)
Operating Expenses	(127,532,745)
Other Income	21,462,183
Profit before taxation	(149,773,720)
Taxation	(9,646,385)
Loss after tax	(159,420,105)

Key operating and financial data

The financial data for previous years is as follows:

	2015-16	2014-15
	Pak Rupees	Pak Rupees
Revenue	119,233,061	10,773,975
Cost of services	(111,262,185)	(8,989,769)
Gross Profit	7,970,876	1,784,206
Exploration Expenses	(51,674,034)	(491,502)
Operating Expenses	(127,532,745)	(72,351,643)
Other Income	21,462,183	40,986,220
Profit/ (loss) before taxation	(149,773,720)	(30,072,719)
Taxation – Current	(9,646,385)	7,606,173
- Deferred	-	-
Loss after tax	(159,420,105)	(22,466,576)
Number of employees	226	151

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Future Plans

Energy crisis of the country and particularly in the Khyber Pakhtunkhwa province, warranted to harness the hidden resource of the Khyber Pakhtunkhwa. In this connection KPOGCL has been striving to make viable investment and following efforts are being undertaken by the management with the approval of the Board of Directors;

1. KPOGCL JV share in the following blocks is under consideration and matter has taken up with respective Operators for KPOGCL's share in these blocks;
 - a. Latamber: 15%
 - b. Wali: 12%
2. KPOGCL is in communication with JV Operators to increase its share in the following blocks:
 - a. Baratai from 2.5% to 12.5%
 - b. Peshawar East from 1.81% to 9.81%
 - c. Kulachi from 2.05% to 15%
 - d. Karak North from 2.5% to 10.5%
 - e. Paharpur from 2.375% to 15%
3. KPOGCL has identified new blocks Lakki, DIK- East, DIK West & Nowshera block. These blocks have been marketed to local and foreign investors for investment as JV partnership with KPOGCL, being the operator. KPOGCL started initial G&G studies of these blocks in the current year. BOD has also given approval for investment in Gurgalot.
4. KPOGCL plans to drill exploratory well in Lakki block by with 70% ownership and 30 % farm out:

Appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2016 and shall retire on the conclusion of the Annual General Meeting offered themselves for reappointment. In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the appointment of _____, Chartered Accountants as auditors for the year FY 2016-17 at the audit fee of Rs. _____. Financial bids were requested from the Big four Audit

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firms only and the firm quoting the lowest financial bid has been recommended for appointment as External Statutory Auditor for the FY 2016-17.

Government levies

The Company has paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants amounting to PKR 18,133,527, PKR 1,110,545 & PKR 922,289 respectively while the outstanding as on close of financial year (as disclosed in Note 6 of the audited financial statements) amounted to PKR 1,614,944, PKR 5,178,499 & PKR 1,608,873 & KP Sales Tax receivable amounting to PKR 1,820,147.

Dividend

Considering the operational results and future plans the Board of directors does not recommend any dividend.

Auditors report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2016.

Pattern of Shareholding

The pattern of shareholding of the Company as on June 30, 2015 is as under;

Shareholder	Percentage	Number of Shares
Government of Khyber Pakhtunkhwa(Secretary Energy & Power)	99.999940	4,999,997
Mr Zafar Iqbal	00.000020	1
Sahibzada Saeed Ahmed	00.000020	1
Mr. Shumail Butt	00.000020	1
Total	100.000000	5,000,000

Earnings per share

KPOGCL started generating revenues from May 2015 hence earning per share of the company as on June 30, 2016 is Rs (8.39) per share.

Corporate Governance & Financial Reporting Framework

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

- a) 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.
- b) Proper books of the Company have been maintained.
- c) The board has complied with the relevant principles of corporate governance and has identified the rules that have not been complied with.
- d) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- e) The system of internal control is sound in design and has been regularly reviewed and effectively monitored.
- f) 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.
- g) The remuneration of directors is in accordance with the trend and practice in other public sector entities beside size of the company and duties to be discharged by the director. Disclosure of remuneration of Chief Executive, Directors and Executives is given in Note 18 of the annexed financial statements.

Election of Directors

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.

Meetings of Board of Directors

A total number of three meetings of board of directors were held during the year and the attendance of directors is as follows;

Name of Director	Number of Meetings Attended
Mr. Tariq Iqbal Khan (Chairman)	3/3
Mr. Engr Muhammad Naeem Khan	3/3
Mr. Ali Raza Bhutta	2/3
Mr. Amin Mukaty	3/3
Capt ® Mr. Munir Azam	3/3
Mr. Zulfiqar Ali Khan	2/3
Mr. Khurshid Anwer	3/3
Mr. Sahibzada M Naeem	3/3

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Mr. Shumail Butt	1/3	
Mr. Mussarath Hussain	3/3	
Mr. Raziuddin (CEO KPOGCL)	3/3	

Remuneration of Directors:

Rs. 10,000/- net of tax were paid as meeting fee to each Director for each meeting attended.

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 Pakhtunkhwa, Finance Department and other 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 & consultants of the Company, while optimistically looking forward to the leading role KPOGCL will play in E&P industry of Khyber Pakhtunkhwa 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

November 28, 2016

Signature

Chief Executive



Signature

Director