# BALANCE SHEET

as at June 30, 2006

| | Note | June 30, 2006 | June 30, 2005 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **SHARE CAPITAL AND RESERVES** | | | |
| Authorized capital | | | |
| 250,000,000 ordinary shares of Rs 10 each | | **2,500,000** | 2,500,000 |
| Issued, subscribed and paid up capital | 3 | **367,500** | 367,500 |
| General reserve | 4 | **2,046** | 2,046 |
| Undistributed percentage return reserve | 5 | **275,261** | 207,749 |
| Profit and loss account | 6 | **2,037,839** | 2,029,955 |
| | | **2,682,646** | 2,607,250 |
| **LONG TERM FINANCING, PROVISIONS AND DEFERRED LIABILITIES** | | | |
| Long term financing - secured | 7 | **112,100** | 336,300 |
| Provision for decommissioning cost | 8 | **1,294,481** | 1,366,791 |
| Deferred taxation | 9 | **47,920** | 151,002 |
| Other deferred liabilities | 10 | **73,886** | 85,359 |
| | | **1,528,387** | 1,939,452 |
| **CURRENT LIABILITIES** | | | |
| Current maturity of long term financing - secured | 7 | **224,200** | 224,200 |
| Accrued and other liabilities | 11 | **3,193,510** | 2,886,881 |
| Provision for taxation - net | | **589,205** | 272,131 |
| | | **4,006,915** | 3,383,212 |
| **CONTINGENCIES AND COMMITMENTS** | 12 | | |
| | | **8,217,948** | 7,929,914 |

The annexed notes from 1 to 38 form an integral part of these financial statements.

| | Note | June 30, 2006 | June 30, 2005 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **FIXED ASSETS** | | | |
| Property, plant and equipment - tangible | 13 | **3,325,033** | 3,655,381 |
| Intangible assets | 14 | **70,259** | 71,449 |
| | | **3,395,292** | 3,726,830 |
| **LONG TERM LOANS AND ADVANCES - considered good** | 15 | **5,826** | 6,646 |
| **LONG TERM DEPOSITS AND PREPAYMENTS** | 16 | **4,195** | 4,497 |
| **CURRENT ASSETS** | | | |
| Stores and spares | 17 | **166,947** | 153,799 |
| Trade debts - considered good | 18 | **1,211,969** | 954,480 |
| Loans and advances - considered good | 19 | **207,269** | 93,985 |
| Short term prepayments | 20 | **24,343** | 22,733 |
| Other receivables | 21 | **36,796** | 26,979 |
| Cash and bank balances | 22 | **3,165,311** | 2,939,965 |
| | | **4,812,635** | 4,191,941 |
| | | **8,217,948** | 7,929,914 |

**Lt Gen Imtiaz Shaheen (Retd)**
Chief Executive

**Qaiser Javed**
Director

# PROFIT AND LOSS ACCOUNT

## for the year June 30, 2006

| | Note | June 30, 2006 | June 30, 2005 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Gross sales - to customers | | **19,647,311** | 15,933,143 |
| own consumption | | **4,603** | 3,923 |
| | | **19,651,914** | 15,937,066 |
| Less: Gas development surcharge | | **12,824,068** | 10,140,814 |
| General sales tax | | **2,562,269** | 2,077,525 |
| Excise duty | | **638,582** | 605,706 |
| Adjustment/Surplus payable to the President of Pakistan as per the Agreement | | **815,283** | 419,079 |
| | | **16,840,202** | 13,243,124 |
| Sales - net | | **2,811,712** | 2,693,942 |
| Less: Royalty | | **351,464** | 336,743 |
| | | **2,460,248** | 2,357,199 |
| Operating expenses | 23 | **1,131,447** | 1,069,045 |
| Exploration expenditure | 24 | **984,710** | 631,659 |
| | | **2,116,157** | 1,700,704 |
| Operating profit | | **344,091** | 656,495 |
| Other operating income | 25 | **366,223** | 122,561 |
| | | **710,314** | 779,056 |
| Finance costs | 26 | **44,258** | 36,429 |
| Other charges | 27 | **63,418** | 64,699 |
| | | **107,676** | 101,128 |
| Profit before taxation | | **602,638** | 677,928 |
| Taxation | 28 | **413,391** | 316,409 |
| Profit after taxation | | **189,247** | 361,519 |
| **Earnings per share - basic and dilutive** | | | |
| Earnings per share on the basis of distributable profits (Rupees) | 29 | **5.06** | 4.45 |
| Earnings per share on the basis of Profit and Loss account (Rupees) | 29 | **5.15** | 9.84 |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Lt Gen Imtiaz Shaheen (Retd)**
Chief Executive

**Qaiser Javed**
Director

# CASH FLOW STATEMENT

for the year June 30, 2006

| | Note | June 30, 2006 | June 30, 2005 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 30 | **568,887** | 1,608,303 |
| Decrease / (increase) in long-term loans and advances | | **820** | (770) |
| Decrease /(Increase) in long term deposits & prepayments | | **302** | (1,081) |
| Unfunded employee benefits paid | | **(2,028)** | (1,771) |
| Taxes paid | | **(199,401)** | (160,068) |
| Net cash generated from operations | | **368,580** | 1,444,613 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(130,214)** | (313,460) |
| Proceeds from sale of property, plant and equipment | | **15,293** | 12,079 |
| Interest received | | **324,675** | 84,839 |
| Net cash from /(used in) investing activities | | **209,754** | (216,542) |
| **Cash flows from financing activities** | | | |
| Repayment of long term financing | | **(224,200)** | (224,200) |
| Finance cost paid | | **(44,744)** | (35,840) |
| Dividends paid | | **(84,044)** | (111,711) |
| Net cash used in financing activities | | **(352,988)** | (371,751) |
| Increase in cash and cash equivalents | | **225,346** | 856,320 |
| Cash and cash equivalents at beginning of the year | | **2,939,965** | 2,083,645 |
| Cash and cash equivalents at end of the year | | **3,165,311** | 2,939,965 |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Lt Gen Imtiaz Shaheen (Retd)**
Chief Executive

**Qaiser Javed**
Director

# STATEMENT OF CHANGES IN EQUITY

## for the year June 30, 2006

| | Share capital | General reserve | Undistributed percentage return reserve | Profit and loss account | Total |
|---|---|---|---|---|---|
| | (Rupees in thousand) | | | | |
| **Balance as at June 30, 2004** | 367,500 | 2,046 | 158,127 | 1,830,035 | 2,357,708 |
| Profit for the year | - | - | - | 361,519 | 361,519 |
| Dividends | - | - | - | (111,977) | (111,977) |
| Transferred to undistributed percentage return reserve | - | - | 49,622 | (49,622) | - |
| **Balance as at June 30, 2005** | 367,500 | 2,046 | 207,749 | 2,029,955 | 2,607,250 |
| Profit for the year | - | - | - | 189,247 | 189,247 |
| Dividends | - | - | - | (113,851) | (113,851) |
| Transferred to undistributed percentage return reserve | - | - | 67,512 | (67,512) | - |
| **Balance as at June 30, 2006** | **367,500** | **2,046** | **275,261** | **2,037,839** | **2,682,646** |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Lt Gen Imtiaz Shaheen (Retd)**
Chief Executive

**Qaiser Javed**
Director

## 1. LEGAL STATUS AND OPERATIONS

Mari Gas Company Limited ("the Company") is a public limited company incorporated in Pakistan under the Companies 'Ordinance, 1984 and its shares are listed on the Karachi, Lahore and Islamabad stock exchanges. The Company is principally engaged in drilling, exploration, production and sale of natural gas. The gas price mechanism is governed by Mari Gas Well Head Price Agreement dated ("the Agreement") December 22, 1985 between the President of Islamic republic of Pakistan and the Company. The registered office of the Company is situated at 21 Mauve Area, 3rd road, G-10/4, Islamabad.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

### 2.2 Accounting convention and basis of measurement

These financial statements have been prepared under the historical cost convention except that obligation under certain employees benefits and provision for decommissioning cost have been measured at present value.

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.

Judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in subsequent years are as follows:

#### a) Estimation of natural gas reserves

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

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

b) **Provision for decommissioning cost**

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

c) **Employee retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note - 31 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

d) **Income taxes**

In making the estimates for income taxes currently payable by the Company, the management looks at the income tax law applicable to the Company and the decisions of appellate authorities on certain issues in the past. This involves judgment on the future tax treatment of certain transactions. Deferred tax is recognized based on the expectation of the tax treatment of these transactions.

**2.3 Gas price mechanism**

In terms of Mari Gas Well Head Price Agreement "The Agreement" dated December 22, 1985 between the President of Islamic Republic of Pakistan and Mari Gas Company Limited, well head gas price for each ensuing year is determined in accordance with the principles of gas price formula set out in Article II of the Agreement. The Agreement states that the gas price will be at the minimum level to ensure that total revenues generated from sale of gas and other income are sufficient to provide a minimum return of 30%, net of all taxes, on Shareholders' Funds (as defined in the Agreement) after meeting specified ratios and deductibles. The return to shareholders shall be escalated in the event of increase in the Company's gas production beyond the level of 425 MMSCFD at the rate of 1%, net of all taxes, on Shareholders' Funds for each additional 20 MMSCFD of gas or equivalent oil produced, prorated for part thereof on annual basis, subject to a maximum of 45%. The minimum return to shareholders for the year was 32.18% (2005: 30.98%).

Effective July 01, 2001, the Government has authorized the Company to incur expenditure not exceeding the Rupee equivalent of US$ 20,000,000 per annum or 30% of the Company's annual gross sales revenue as disclosed in the last audited financial statements, whichever is less, in connection with exploration and development in any Concession area other than

Mari Field, provided that if such exploration and development result in additional oil and gas production, the revenues generated from such additional oil or gas production shall be credited to and treated as revenue under the Agreement referred to above.

### 2.4 Taxation

Provision for current taxation is based on taxable income at the applicable rate of taxation. The Company accounts for deferred taxation on all timing differences, using the 'liability method' in respect of all major temporary differences between carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of the taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax liability has been calculated at the estimated effective rate of 25% after taking into account availability of depletion allowance.

### 2.5 Provisions

Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of obligation.

### 2.6 Decommissioning cost

Estimated decommissioning and restoration costs, which are primarily in respect of abandonment and removal of wells and production facilities at Mari Field and the Company's proportionate share in joint venture fields, are based on current requirements, technology and price levels and are stated at fair value, and the associated asset retirement costs are capitalized as part of property, plant and equipment and amortized on unit of production basis over the total proved reserves of the relevant field. The liability is recognized once an obligation (whether legal or constructive) crystallizes in the period when a reasonable estimate of the fair value can be made; a corresponding amount is recognized in property, plant and equipment. The fair value is calculated using amounts discounted over the useful economic life of the assets. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis.

During the year, the Company revised its estimates of outflows of resources to settle decommissioning liability based on future projected cost adjusted to present value. This has been treated as change in accounting estimates applied prospectively, in accordance with IFRIC Interpretation 1"Changes in Existing Decommissioning, Restoration and Similar Liabilities" which became applicable during the current accounting year.Following line items would not have been effected had there been no change in estimates.

| | (Rupees in thousand) |
|---|---|
| Provision for decommissioning cost would have been higher by | (538,148) |
| Fixed assets would have been higher by | 520,468 |
| Depreciation and amortization charge would have been higher by | 17,680 |

### 2.7 Employees' retirement benefits

The Company operates:

i) Defined benefit funded pension and gratuity plans for its management employees and defined benefit funded gratuity plan for its non-management employees. Contributions are made to these plans on the basis of actuarial recommendations. Actuarial valuations are conducted periodically using the Projected Unit Credit Actuarial Cost method and the latest valuation was carried out as at June 30, 2006. The results of the valuation are summarized in note 31 to the financial statements. Rules of Management Staff Gratuity Fund have been amended w.e.f. July 01, 2006 which resulted in vested prior service cost of Rs 4.864 million, which has been recognized during the year. Actuarial gains and losses are amortized over the expected remaining service time of employees.

ii) Defined benefit unfunded pension plan for its non-management employees. Liability related to accumulated period of service of eligible employees is provided based on actuarial valuation. The latest valuation was carried out as at June 30, 2006 using discount rate of 9% p.a. and pension increase rate of 4% p.a.

iii) Defined contribution provident fund for its permanent employees for which contributions are charged to profit and loss account for the year. An amount of Rs 9.519 million (2005 : Rs 8.693 million) has been charged to profit and loss account during the year in respect of this plan using 10% p.a. of the basic salary.

The Company has accrued post retirement medical benefits of its management employees based on actuarial valuation carried out as at June 30, 2006 using discount rate of 9% p.a. and increase in cost of medical benefit of 6% p.a. An amount of Rs 5.097 million (June 2005 Rs 4.429 million) has been charged to profit and loss account during the year.

The Company has accrued post retirement leave of its management employees based on actuarial valuation carried out as at June 30, 2006 using discount rate of 9% p.a and salary increase rate of 9% p.a . An amount of Rs 3.717million (June 2005; Rs 2.935 million) has been charged to profit and loss account during the year.

### 2.8 Property, Plant and Equipment

Operating assets except freehold land are stated at cost less accumulated depreciation. Freehold land and capital work in progress are stated at cost.

Depreciation on property plant and equipment is charged to income using the straight line method at rates specified in note 13. Amortization of drilling expenditure related to Mari Field is charged to income over a period of 10 years in line with the requirements of the Agreement. Acquisition cost of leases, where commercial reserves have been discovered, are capitalized and amortized on unit of production basis.

Depreciation on addition to property plant and equipment is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Gains and losses on disposals are taken to income in the year of disposal. Maintenance and repairs are charged to income as and when incurred.

### 2.9 Intangible assets

Intangible assets are initially recorded at cost where it is probable that they will generate future economic benefits. Intangible assets includes rights and concessions. Intangible assets are subsequently recognized at cost less accumulated amortization including any impairment. Rights and concessions are amortized on the unit of production basis over the total proved reserves of the relevant field.

### 2.10 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized in the profit and loss account.

### 2.11 Stores and spares

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

### 2.12 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. Assets and liabilities in foreign currencies are translated into rupees at the rate of exchange ruling at the balance sheet date. All exchange differences are charged to income.

### 2.13 Revenue recognition

Sales are recorded on delivery of gas to customers. Income on bank deposits is proportionately accrued upto the balance sheet date.

### 2.14 Joint venture operations and exploration expenditure - other than Mari Field

Exploration expenditure incurred in concession areas other than Mari Field are expensed as incurred but are subsequently capitalized relating to any reserves of oil and gas that are discovered. Capitalized exploration and development costs are amortized on unit of production basis. Transactions related to joint venture operations in which the Company has a working interest are accounted for on the basis of latest available audited accounts of the joint venture and where applicable, the cost statements received from the operator of the joint venture, for the intervening period upto the balance sheet date.

### 2.15 Lease acquisition cost

License acquisition cost relating to a license area with no prior technical discovery are treated as exploration expenditure and charged against revenues whereas lease acquisition costs relating to Development and Production lease are recorded as acquisition cost.

### 2.16 Borrowing cost

Borrowing cost is expensed as incurred.

### 2.17 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Company derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

#### a) Trade Debts and other receivables

Trade debts and other receivables are due on normal trade terms. These are stated at original invoice amount as reduced by appropriate provision for impairment. Bad debts are written off when identified.

#### b) Cash and cash equivalents

Cash and cash equivalents for the purposes of cash flow statement comprise cash in hand and in bank.

### 2.18 Transactions with related parties

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as applicable to third party transactions.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |

## 3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

| | | |
|---|---|---|
| 24,850,007 (2005: 24,850,007) ordinary shares of Rs 10 each for cash | **248,500** | 248,500 |
| 11,899,993 (2005: 11,899,993) ordinary shares of Rs 10 each for consideration other than cash | **119,000** | 119,000 |
| | **367,500** | 367,500 |

| Major shareholding of the Company is as follows: | %age | %age |
|---|---|---|
| Fauji Foundation | **40%** | 40% |
| Oil and Gas Development Company Limited | **20%** | 20% |
| Government of Pakistan | **20%** | 20% |

## 4. GENERAL RESERVES

The amount held under this reserve represents the un-appropriated profit for the period from December 04, 1984 to December 31, 1985.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |

## 5. UNDISTRIBUTED PERCENTAGE RETURN RESERVE

| | | |
|---|---|---|
| **5.1** Opening balance | **207,749** | 158,127 |
| Transferred from profit and loss account | **67,512** | 49,622 |
| | **275,261** | 207,749 |

**5.2** The amount held in this reserve represents the balance of the percentage return reserve on shareholders' funds as defined in the Agreement.

## 6. PROFIT AND LOSS ACCOUNT

The amount of Rs 2,037,839 thousand (2005; Rs 2,029,955 thousand) represents the following:

**6.1 Undistributable balance**

The amount of Rs 2,029,827 thousand, which is not distributable, has been provided through the operation of Article II of Mari Gas Well Head Price Agreement to meet the obligations and to the extent indicated for the following:

| | Generated upto June 30, 2005 | **Generated during the year ended June 30, 2006** | Total |
|---|---|---|---|
| | (Rupees in thousand) | | |
| a) Rupee element of capital expenditure (net of depreciation/ amortization) and repayment of borrowings | 1,761,583 | **3,473** | 1,765,056 |
| b) Maintenance of debt service ratio | 90,234 | **-** | 90,234 |
| c) Maintenance of current ratio | 174,537 | **-** | 174,537 |
| Total | 2,026,354 | **3,473** | 2,029,827 |
| 2005 | 1,828,308 | **198,046** | 2,026,354 |

**6.2** Distributable balance

| | **June 30, 2006** | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Undistributed guaranteed return | **8,012** | 3,601 |

This represents the additional 2.18% (2005 : 0.98%) guaranteed return to shareholders on account of increase in gas production during the year.

**7. LONG TERM FINANCING-SECURED**

| | **June 30, 2006** | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| From Habib Bank Limited - note 7.1 | **336,300** | 560,500 |
| Less: Current maturity shown under current liabilities | **224,200** | 224,200 |
| | **112,100** | 336,300 |

**7.1** On September 15, 2000, the Company entered into an agreement with Habib Bank Limited for financing of its Goru-B Project on mark-up basis. The total amount disbursed is Rs 1,121 million with a corresponding "Marked-up Price" of Rs 2,125 million. The mark-up is payable quarterly on the basis of last successful auction of six months treasury bills cut-off yield plus 1.50% per annum. The effective mark-up rate during the year was 9.667% (2005: 5.0825%) per annum. The loan is repayable in ten half-yearly installments commencing March 2003. The loan is secured by mortgage, hypothecation and floating charges created against all present and future assets of the Company.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |

## 8. PROVISION FOR DECOMMISSIONING COST

| | | |
|---|---|---|
| Opening balance | **1,366,791** | 1,310,089 |
| Provision for the year | **(72,310)** | 56,702 |
| Closing balance | **1,294,481** | 1,366,791 |

## 9. DEFERRED TAXATION

This is made up as follows:

| | | |
|---|---|---|
| Accelerated tax depreciation | **288,962** | 352,041 |
| Provision for unfunded retirement benefits | **(18,350)** | (16,171) |
| Provision for doubtful debts | **-** | (6,077) |
| Exploration expenditure | **(222,692)** | (178,791) |
| Deferred tax liability | **47,920** | 151,002 |

## 10. OTHER DEFERRED LIABILITIES

| | | |
|---|---|---|
| Post retirement medical benefits - note 31.2 | **45,481** | 41,386 |
| Post retirement leaves - note 31.2 | **19,806** | 17,115 |
| Unfunded pension plan for non-management | **8,113** | 6,179 |
| Other deferred liabilities | **486** | 20,679 |
| | **73,886** | 85,359 |

## 11. ACCRUED AND OTHER LIABILITIES

| | | |
|---|---|---|
| Gas development surcharge | **2,350,350** | 1,831,405 |
| General sales tax | **227,708** | 181,729 |
| Excise duty | **53,959** | 52,080 |
| Interest on long term loan | **825** | 1,311 |
| Workers' welfare fund | **109,143** | 79,028 |
| Workers' profits participation fund - note 11.1 | **33,303** | 37,131 |
| Staff retirement funds - note 31 | **31,853** | 34,178 |
| Retention and earnest money deposits | **6,580** | 6,082 |
| Payable to joint venture partners | **18,590** | 137,377 |
| Other accrued liabilities | **105,489** | 96,862 |
| Unclaimed/unpaid dividend | **40,427** | 10,619 |
| Adjustment/ surplus payable to the President of Pakistan under the provisions of the Agreement | **215,283** | 419,079 |
| | **3,193,510** | 2,886,881 |

### 11.1 Workers' profits participation fund

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Balance payable at beginning of the year | **37,131** | 47,733 |
| Add: Allocation for the year | **33,303** | 37,131 |
| Interest on delayed payment to the Fund @ 22.85% p.a(2005 : 22.62% p.a) | **907** | 1,772 |
| | **34,210** | 38,903 |
| | **71,341** | 86,636 |
| Less: Amount paid to the Fund | **38,038** | 49,505 |
| Balance payable at end of the year | **33,303** | 37,131 |

## 12. CONTINGENCIES AND COMMITMENTS

**12.1** In terms of Ministry of Petroleum and Natural Resources instructions through their 'letters DGO(AC)-5(50)/94-IA and DGO(AC)-5(50)/95 dated March 30, 1995 and October 01, 1996 respectively, the Company was advised that interest on delayed payment from WAPDA and interest on delayed payment of development surcharge to the Government be taken into account after it is actually received/paid.

Interest on delayed payment from WAPDA and interest on delayed payment of development surcharge to the Government at June 30, 2006 amounted to Rs 314.187 million (2005: Rs 271.041 million) and Rs 112.392 million (2005: Rs 112.392 million) respectively, which will be taken into account when it is actually received / paid. However, it does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Agreement.

### 12.2 Other contingencies

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| (i) Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials | **255,229** | 374,890 |
| (ii) Claims for regulatory duty | **-** | 10,059 |

### 12.3 Commitments

| | | |
|---|---|---|
| (i) Capital expenditure: | | |
| - Share in joint ventures | **1,743,928** | 969,491 |
| - Others | **110,611** | 43,341 |
| | **1,854,539** | 1,012,832 |
| (ii) Operating lease rentals due: | | |
| - Less than one year | **4,524** | 5,070 |
| - More than one year but less than five years | **6,042** | 9,524 |
| | **10,566** | 14,594 |

## 13. PROPERTY, PLANT AND EQUIPMENT - tangible

| | Freehold land | Lease-hold land | Buildings on free-hold land | Buildings on lease hold land | Roads and bridges | Drilling tools and equipments | Equipment and general plant | Computers and allied equipment | Gathering lines | Furniture and fixture | Vehicles heavy | Vehicles light | Drilling expenditure Mari field | Decommissioning cost - Mari field | Decommissioning cost - Z & ZS field | Capital work in progress (note 13.1) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rupees '000 | | | | | | | | | | | | | | | | |
| Cost | | | | | | | | | | | | | | | | | |
| Balance as at 01 July 2004 | 82,364 | 50,911 | 294,935 | 45,519 | 71,853 | 21,432 | 302,829 | 52,247 | 763,207 | 33,730 | 127,385 | 78,443 | 2,426,190 | 1,310,089 | - | 185,718 | 5,846,852 |
| Additions during the year | - | 451 | 85,722 | - | 5,360 | - | 49,958 | 7,681 | 10,448 | 4,193 | 8,779 | 5,386 | 153,450 | 56,703 | - | 313,461 | 701,592 |
| Disposals | - | - | (184) | - | - | - | (4,104) | (3,241) | - | (1,331) | (4,576) | (6,099) | (5,932) | - | - | - | (25,467) |
| Transfers/Adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (331,430) | (331,430) |
| Balance as at 30 June 2005 | 82,364 | 51,362 | 380,473 | 45,519 | 77,213 | 21,432 | 348,683 | 56,687 | 773,655 | 36,592 | 131,588 | 77,730 | 2,573,708 | 1,366,792 | - | 167,749 | 6,191,547 |
| Balance as at 01 July 2005 | 82,364 | 51,362 | 380,473 | 45,519 | 77,213 | 21,432 | 348,683 | 56,687 | 773,655 | 36,592 | 131,588 | 77,730 | 2,573,708 | 1,366,792 | - | 167,749 | 6,191,547 |
| Additions during the year | 61,274 | - | 24,299 | - | 20,105 | - | 30,293 | 1,290 | 4,408 | 5,648 | 14,458 | 15,635 | 8,519 | - | 38,027 | 130,214 | 354,170 |
| Disposals | - | - | - | - | - | - | (5,692) | (504) | - | (154) | (19,824) | (5,901) | - | - | - | - | (32,075) |
| Transfers | - | - | - | - | - | - | - | - | - | - | - | - | - | (110,338) | - | (185,929) | (296,267) |
| Balance as at 30 June 2006 | 143,638 | 51,362 | 404,772 | 45,519 | 97,318 | 21,432 | 373,284 | 57,473 | 778,063 | 42,086 | 126,222 | 87,464 | 2,582,227 | 1,256,454 | 38,027 | 112,034 | 6,217,375 |
| Depreciation | | | | | | | | | | | | | | | | | |
| Balance as at 01 July 2004 | - | 1,175 | 92,923 | 16,963 | 40,316 | 21,432 | 162,521 | 32,407 | 448,021 | 20,330 | 104,245 | 36,086 | 1,104,237 | 106,887 | - | - | 2,187,543 |
| Depreciation for the year | - | 952 | 18,257 | 2,276 | 5,267 | - | 25,545 | 11,213 | 38,390 | 2,937 | 12,206 | 13,614 | 201,552 | 38,820 | - | - | 371,029 |
| Disposals | - | - | (66) | - | - | - | (3,285) | (3,157) | - | (1,212) | (4,511) | (5,726) | (4,449) | - | - | - | (22,406) |
| Balance as at 30 June 2005 | - | 2,127 | 111,114 | 19,239 | 45,583 | 21,432 | 184,781 | 40,463 | 486,411 | 22,055 | 111,940 | 43,974 | 1,301,340 | 145,707 | - | - | 2,536,166 |
| Balance as at 01 July 2005 | - | 2,127 | 111,114 | 19,239 | 45,583 | 21,432 | 184,781 | 40,463 | 486,411 | 22,055 | 111,940 | 43,974 | 1,301,340 | 145,707 | - | - | 2,536,166 |
| Depreciation for the year | - | 959 | 19,723 | 2,275 | 5,760 | - | 28,219 | 8,404 | 39,042 | 3,391 | 12,514 | 15,760 | 212,937 | 37,597 | - | - | 386,581 |
| Disposals | - | - | - | - | - | - | (4,037) | (504) | - | (139) | (19,824) | (5,901) | - | - | - | - | (30,405) |
| Transfers | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2006 | - | 3,086 | 130,837 | 21,514 | 51,343 | 21,432 | 208,963 | 48,363 | 525,453 | 25,307 | 104,630 | 53,833 | 1,514,277 | 183,304 | - | - | 2,892,342 |
| Carrying amounts - 2005 | 82,364 | 49,235 | 269,359 | 26,280 | 31,630 | - | 163,902 | 16,224 | 287,244 | 14,537 | 19,648 | 33,756 | 1,272,368 | 1,221,085 | - | 167,749 | 3,655,381 |
| Carrying amounts - 2006 | 143,638 | 48,276 | 273,935 | 24,005 | 45,975 | - | 164,321 | 9,110 | 252,610 | 16,779 | 21,592 | 33,631 | 1,067,950 | 1,073,150 | 38,027 | 112,034 | 3,325,033 |
| Rates of depreciation - % | - | 1-3 | 5 | 5 | 10 | 20 | 10 | 25 | 10 | 10 | 30 | 20 | 10 | Note 2.6 | Note 2.6 | - | |

## 13.1. CAPITAL WORK IN PROGRESS

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Goru - B project | | |
| Land | - | 7,531 |
| Phase VI project | | |
| Land | - | 28,792 |
| Others | 1,637 | 283 |
| | 1,637 | 29,075 |
| Mari Deep 12 | | |
| Land | - | 1,855 |
| Materials and equipment | 1,968 | 5,039 |
| Others | 263 | 263 |
| | 2,231 | 7,157 |
| SML - 1 | | |
| Land | - | 19 |
| Materials and equipment | 4,872 | 8,732 |
| Others | 2,144 | 2,144 |
| | 7,016 | 10,895 |
| PIRKOH well | | |
| Land | 181 | - |
| Materials and equipment | 6,103 | - |
| | 6,284 | - |
| SML - apprasial well | | |
| Land | 181 | - |
| Materials and equipment | 4,031 | - |
| | 4,212 | - |
| Support of production | | |
| Land | - | 9,952 |
| Building, roads and bridges | 48,962 | 71,402 |
| Plant, machinery and others | 41,692 | 31,737 |
| | 90,654 | 113,091 |
| | 112,034 | 167,749 |

## 13.2 Details of assets disposed off during the year

| Description | Cost | Accumulated depreciation | Net book value | Sale proceeds | Mode of disposal | Particulars of Purchaser |
|---|---|---|---|---|---|---|
| | Rs. in thousand | | | | | |
| Property plant and equipment | 1,018 | 738 | 280 | 18 | Through auction | Muhammad Akhtar, Sadiqabad |
| | 400 | 340 | 60 | 5 | Through auction | Ideal Business System, Islamabad |
| | 445 | 356 | 89 | 14 | Through auction | Humayun Khan, Kohat |
| | 415 | 342 | 73 | 14 | Through auction | Humayun Khan, Kohat |
| | 426 | 287 | 139 | 20 | Through auction | Sher Khan, Rawalpindi |
| | 381 | 174 | 207 | 20 | Through auction | Sher Khan, Rawalpindi |
| | 305 | 54 | 251 | 25 | Through auction | Ideal Business System, Islamabad |
| | 13 | 4 | 9 | 1 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 13 | 4 | 9 | 5 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 13 | 4 | 9 | 5 | As per Company policy | Dr. Asif Ahsen<br>Ex-Senior Geologist |
| | 11 | 4 | 7 | 3 | As per Company policy | Rao Wajahat Ali<br>Ex-Senior Officer |
| | 11 | 5 | 6 | 1 | As per Company policy | Lt. Col (retd) Manzoor Iqbal Awan<br>Manager Human Resource |
| | 12 | 3 | 9 | 1 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| | 12 | 3 | 9 | 1 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| | 12 | 5 | 7 | 1 | As per Company policy | Javed Iqbal Jadoon<br>Manager - Planning |
| | 13 | 6 | 7 | 1 | Through Auction | Mushtaq Ahmed, Rahim Yar Khan |
| | 13 | 6 | 7 | 1 | Through Auction | Mushtaq Ahmed, Rahim Yar Khan |
| | 13 | 6 | 7 | 1 | Through Auction | Mushtaq Ahmed, Rahim Yar Khan |
| | 13 | 6 | 7 | 1 | Through Auction | Mushtaq Ahmed, Rahim Yar Khan |
| | 13 | 6 | 7 | 1 | Through Auction | Mushtaq Ahmed, Rahim Yar Khan |
| | 14 | 2 | 12 | 11 | As per Company policy | Syed Nayyar Raza Zaidi<br>Ex-Assistant Manager Accounts |
| | 48 | 24 | 24 | 5 | As per Company policy | Lt.Col (retd) Manzoor Iqbal Awan<br>Manaer Human Resource |
| | 16 | 4 | 12 | 6 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 43 | 12 | 31 | 17 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 33 | 11 | 22 | 2 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| | 35 | 16 | 19 | 21 | As per Company policy | Javed Iqbal Jadoon<br>Manager Planning |
| | 15 | 5 | 10 | 1 | As per Company policy | Javed Iqbal Jadoon<br>Manager Planning |
| | 22 | 6 | 16 | 9 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 22 | 6 | 16 | 8 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 22 | 6 | 16 | 9 | As per Company policy | Perviaz Usman<br>Ex-General Manager Finance |
| | 26 | 16 | 10 | 3 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| | 27 | 16 | 11 | 3 | As per Company policy | Lt. Col (retd) Shahid Abbas<br>Manager Administration |
| | 27 | 16 | 11 | 3 | As per Company policy | Muhammad Asif<br>General Manager Finance |
| | 27 | 16 | 11 | 3 | As per Company policy | Muhammad Liaquat Ali Khan<br>Manager Production |
| | 27 | 16 | 11 | 3 | As per Company policy | Muhammad Liaquat Ali Khan<br>Manager Production |
| | 27 | 16 | 11 | 3 | As per Company policy | Sarfraz ud din Siddiqui<br>Ex- General Manager Exploration |
| | 27 | 16 | 11 | 3 | As per Company policy | Javed Iqbal Jadoon<br>Manager Planning |
| | 48 | 29 | 19 | - | Through auction | Jaffar Khan, Islamabad |
| | 49 | 29 | 20 | 1 | Through auction | Jaffar Khan, Islamabad |
| | 25 | 9 | 16 | 1 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| | 28 | 5 | 23 | 1 | As per Company policy | Muhammad Ajmal Abbasi<br>Ex-Manager Reservoir |
| Agregate of other items of property plant & equipment with individual book values not exceeding five thousand | 1,533 | 1,408 | 125 | 91 | Through auction | Miscellaneous |
| | 5,693 | 4,037 | 1,656 | 343 | | |
| Computer and allied equipment | 504 | 504 | - | 8 | Through auction | Jaffar Khan, Islamabad |
| Furniture and fixture | 154 | 139 | 15 | 26 | Through auction | Miscellaneous |
| Vehicles | 25,725 | 25,725 | - | 14,916 | Through auction | Miscellaneous |
| | 32,076 | 30,405 | 1,671 | 15,293 | | |

## 14. INTANGIBLE ASSETS

| DESCRIPTION | COST | | | AMORTIZATION | | | Written down value as at June 30, 2006 Rs' 000 | Annual rate of amortization % |
|---|---|---|---|---|---|---|---|---|
| | As at July 01, 2005 Rs' 000 | Additions/ (deletions) Rs' 000 | As at June 30, 2006 Rs' 000 | As at July 01, 2005 Rs' 000 | For the year/ (on deletions) Rs' 000 | As at June 30, 2006 Rs' 000 | | |
| Lease acquisition cost | | | | | | | | |
| - Mari Field | 91,147 | - | 91,147 | 55,983 | 1,190 | 57,173 | 33,974 | Ref. note 2.9 |
| - Zarghun South Field | 36,285 | - | 36,285 | - | - | - | 36,285 | Ref. note 2.9 |
| 2006 | 127,432 | - | 127,432 | 55,983 | 1,190 | 57,173 | 70,259 | |

| DESCRIPTION | COST | | | AMORTIZATION | | | Written down value as at June 30, 2005 Rs' 000 | Annual rate of amortization % |
|---|---|---|---|---|---|---|---|---|
| | As at July 01, 2004 Rs' 000 | Additions/ (deletions) Rs' 000 | As at June 30, 2005 Rs' 000 | As at July 01, 2004 Rs' 000 | For the year/ (on deletions) Rs' 000 | As at June 30, 2005 Rs' 000 | | |
| Lease acquisition cost | | | | | | | | |
| - Mari Field | 91,147 | - | 91,147 | 54,865 | 1,118 | 55,983 | 35,164 | Ref. note 2.9 |
| - Zarghun South Field | 36,285 | - | 36,285 | - | - | - | 36,285 | Ref. note 2.9 |
| 2005 | 127,432 | - | 127,432 | 54,865 | 1,118 | 55,983 | 71,449 | |

## 15. LONG TERM LOANS AND ADVANCES - considered good

| | **June 30, 2006** | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Loans and advances-considered good | | |
| - Executives | **6,626** | 5,820 |
| - Other employees | **5,788** | 7,109 |
| | **12,414** | 12,929 |
| Less: Recoverable within one year - note 19 | | |
| - Executives | **3,688** | 2,930 |
| - Other employees | **2,900** | 3,353 |
| | **6,588** | 6,283 |
| | **5,826** | 6,646 |

**15.1** Reconciliation of carrying amount of loans to executives and other employees

| | **Opening balance as at July 01, 2005** | **Disbursement during the year** | **Repayments during the year** | **Closing balance as at June 30, 2006** |
|---|---|---|---|---|
| | (Rupees in thousand) | | | |
| Executives | 5,820 | 6,956 | 6,150 | **6,626** |
| Other employees | 7,109 | 4,781 | 6,102 | **5,788** |
| | 12,929 | 11,737 | 12,252 | **12,414** |
| 2005 | 11,982 | 10,697 | 9,750 | **12,929** |

**15.1** The amount outstanding for periods exceeding three years was Rs 0.538 million (2005: Rs 1.433 million).

**15.2** The maximum amount due from executives at the end of any month during the year was Rs 7.074 million (2005 : Rs 6.372 million).

**15.3** The loans and advances given to executives and employees represent transport loans and other advances repayable in 36 to 60 equal monthly installments. The loans and advances are interest free.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| **16. LONG TERM DEPOSITS AND PREPAYMENTS** | | |
| Deposits | **3,073** | 3,157 |
| Prepayments | **1,122** | 1,340 |
| | **4,195** | 4,497 |
| **17. STORES AND SPARES** | | |
| Stores | **127,692** | 115,668 |
| Spares | **39,255** | 38,131 |
| | **166,947** | 153,799 |

**17.1** The stores stated above include stores valuing Rs 0.177 million (2005: Rs 0.219 million) representing the Company's share in the Joint Venture operated by ENI Pakistan Limited.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| **18. TRADE DEBTS - considered good** | | |
| **Associated undertakings** | | |
| Water and Power Development Authority | **679,979** | 536,829 |
| Fauji Fertilizer Company Limited | **379,262** | 321,927 |
| Sui Southern Gas Company Limited | **1,304** | 1,025 |
| | **1,060,545** | 859,781 |
| Less: Provision for doubtful debts | **-** | 24,307 |
| | **1,060,545** | 835,474 |
| **Others** | | |
| Engro Chemical Pakistan Limited | **151,424** | 119,006 |
| | **1,211,969** | 954,480 |

The maximum aggregate amount outstanding at the end of any month during the year from associated undertaking was Rs. 1,113.085 million (2005: Rs. 877.588 million).

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| **19. LOANS AND ADVANCES - considered good** | | |
| Loans and advances - note 15 | | |
| - Executives | **3,688** | 2,930 |
| - Other employees | **2,900** | 3,353 |
| | **6,588** | 6,283 |
| Advances to suppliers and others | **7,056** | 5,179 |
| Advances to JV partners | **96,693** | 62,283 |
| Royalty paid in advance | **96,932** | 20,240 |
| | **207,269** | 93,985 |
| **20. SHORT TERM PREPAYMENTS** | | |
| Prepaid insurance | **17,559** | 17,337 |
| Prepaid mining lease | **2,921** | 2,921 |
| Prepaid rent | **366** | 234 |
| Others | **3,497** | 2,241 |
| | **24,343** | 22,733 |
| **21. OTHER RECEIVABLES** | | |
| Income on bank deposits | **33,080** | 21,074 |
| Sales tax paid under protest | **1,709** | 1,709 |
| Receivable from Oil & Gas Development Company Limited | **-** | 1,515 |
| Receivable from custom authorities | **365** | 365 |
| Others | **1,642** | 2,316 |
| | **36,796** | 26,979 |
| **22. CASH AND BANK BALANCES** | | |
| Cash in hand | **300** | 300 |
| Balances with banks | | |
| Deposit accounts | **3,161,962** | 2,935,635 |
| Current accounts (including US$ 6 thousand, 2005: US$ 7 thousand) | **3,049** | 4,030 |
| | **3,165,011** | 2,939,665 |
| | **3,165,311** | 2,939,965 |

## 23. OPERATING EXPENSES

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Salaries, wages and benefits - note 23.1 | **319,319** | 266,905 |
| Employees' retirement benefits | **55,965** | 50,941 |
| Rent, rates and taxes | **8,800** | 2,910 |
| Legal and professional services | **6,767** | 4,535 |
| Fuel, light, power and water | **41,022** | 31,251 |
| Maintenance and repairs | **53,561** | 42,526 |
| Insurance | **32,103** | 31,474 |
| Depreciation and amortization | **387,771** | 372,147 |
| Employees medical and welfare | **52,359** | 48,329 |
| Security and other services | **90,562** | 82,208 |
| Traveling | **7,981** | 10,728 |
| Communications | **7,382** | 9,370 |
| Office supplies | **13,656** | 9,256 |
| Technical software | **2,647** | 8,806 |
| Auditors' remuneration - note 23.2 | **715** | 739 |
| Stores and spares consumed | **33,999** | 36,107 |
| Donations - note 23.3 | **20,524** | 140 |
| Mobile dispensary and social welfare | **36,262** | 27,091 |
| Training | **14,542** | 17,375 |
| Goru - B deliverability build up test | **-** | 5,643 |
| Advertisement | **2,014** | 4,406 |
| Books and periodicals | **719** | 546 |
| Provision for doubtful debts | **-** | 24,307 |
| Miscellaneous | **6,514** | 9,933 |
| | **1,195,184** | 1,097,673 |
| Less: Recovery from Joint ventures | **63,737** | 28,628 |
| | **1,131,447** | 1,069,045 |

**23.1** This includes Rs. 9.242 million (2005: Rs. 8.416 million) on account of defined contribution plan.

### 23.2 AUDITORS' REMUNERATION

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Audit fee | **287** | 287 |
| Fee for half yearly review of accounts | **100** | 100 |
| Special reports | **184** | 184 |
| Other certifications | **78** | 105 |
| Out of pocket expenses | **66** | 63 |
| | **715** | 739 |

**23.3** Donations of Rs. 20.524 million relates to earthquake relief activities carried out by the Company during the year. Donations did not include any amount paid to any person or organization in which a director or his spouse had any interest.

## 24. EXPLORATION EXPENDITURE

| | Share in JV % age 2006 | Share in JV % age 2005 | June 30, 2006 | June 30, 2005 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| **Amount expensed in terms of note 2.13** | | | | |
| Share in joint ventures under the operatorship of: | | | | |
| **MARI GAS COMPANY LIMITED** | | | | |
| Zarghun South Field - note 24.2 | **35.00** | 35.00 | **4,771** | 6,714 |
| Ziarat Block - note 24.3 | **60.00** | 60.00 | **166,901** | (5,840) |
| Karak Block | **100.00** | 100.00 | **141,991** | 3,703 |
| Noor Block | **100.00** | 100.00 | **19,329** | 5,357 |
| Hanna Block | **100.00** | - | **336** | - |
| Harnai Block | **100.00** | - | **324** | - |
| Sujawal Block | **100.00** | - | **402** | - |
| **TOTAL E & P PAKISTAN** | | | | |
| G Block | **5.00** | 5.00 | **2** | 1,668 |
| H Block | **-** | 5.00 | **-** | 1,079 |
| **ENI PAKISTAN LIMITED** | | | | |
| Manchar Block | **22.50** | 22.50 | **(578)** | 9,079 |
| **PAKISTAN PETROLEUM LIMITED** | | | | |
| Dhadar Block | **27.67** | 27.67 | **78,868** | 28,760 |
| Jhamat Block | | 25.00 | **-** | 660 |
| Hala Block | **35.00** | 35.00 | **86,743** | 28,625 |
| Kot Sarang Block | **25.00** | 25.00 | **117,582** | 26,371 |
| Pasni Block | **25.00** | 25.00 | **228,335** | 442,913 |
| Makran Block | **25.00** | 25.00 | **1,571** | 3,303 |
| **TULLOW PAKISTAN (DEVELOPMENTS) LIMITED** | | | | |
| Nawabshah Block | **15.00** | 15.00 | **67,234** | 56,552 |
| Kohat Block | **20.00** | - | **58,221** | - |
| Bannu West Block | **10.00** | - | **1,504** | - |
| **OIL & GAS DEVELOPMENT COMPANY LIMITED** | | | | |
| Zamurdan Block | **20.00** | 20.00 | **9,088** | 4,707 |
| Kohlu Block | **30.00** | 40.00 | **1,294** | 1,597 |
| Kalchas Block | **20.00** | 40.00 | **533** | 1,496 |
| **PAKISTAN OILFIELDS LIMITED** | | | | |
| Hyderabad Block | **25.00** | 25.00 | **259** | 14,915 |
| | | | **984,710** | 631,659 |

**24.1** The exploration expenditure comprises of:

| | 2006 | 2005 |
|---|---|---|
| Geological and geophysical | **291,591** | 108,613 |
| Drilling | **601,886** | 441,241 |
| General and administration | **91,233** | 81,805 |
| | **984,710** | 631,659 |

**24.2** On January 22, 2004 the Director General Petroleum Concession, Government of Pakistan approved the commercial discovery and development plan and granted a Development and Production Lease over Zarghun South Gas Field for the period of 20 years. Gas Sales Agreement has been initialed with Sui Southern Gas Company Limited (SSGC) and Pipeline Tariff Agreement with SSGC and Gas Price Agreement with Government is under process.

**24.3** The Company as operator spud the Ziarat Exploratory Well # 1 on September 28, 2005 which proved successful and declared the discovery on December 24, 2005. The Company as operator plans to appraise the area for future potentials.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |

## 25. OTHER OPERATING INCOME

| | | |
|---|---|---|
| **Income from financial assets** | | |
| Income on bank deposits | **336,681** | 103,220 |
| **Income from non financial assets** | | |
| Gain on sale of property, plant and equipment | **13,622** | 9,016 |
| Liquidated damages/minimum billing to a customer | **12,751** | 3,589 |
| Miscellaneous | **3,169** | 6,736 |
| | **29,542** | 19,341 |
| | **366,223** | 122,561 |

## 26. FINANCE COST

| | | |
|---|---|---|
| Mark-up on long term financing - secured | **42,816** | 33,904 |
| Interest on Workers' Profits Participation Fund | **906** | 1,772 |
| Bank charges | **536** | 753 |
| | **44,258** | 36,429 |

## 27. OTHER CHARGES

| | | |
|---|---|---|
| Workers' profits participation fund | **33,303** | 37,131 |
| Workers' welfare fund | **30,115** | 27,568 |
| | **63,418** | 64,699 |

## 28. TAXATION

| | | |
|---|---|---|
| Provision for taxation | | |
| Current | **516,472** | 472,794 |
| Deferred | **(103,081)** | (156,385) |
| | **413,391** | 316,409 |

### 28.1 RECONCILIATION OF TAX CHARGE FOR THE YEAR

| | % | % |
|---|---|---|
| Applicable tax rate | **35.00** | 35.00 |
| Tax effect of amounts that are not deductible for tax purposes | **49.42** | 23.53 |
| Effect of origination and reversal of temporary differences | **8.67** | 9.00 |
| Tax effect of depletion allowance | **(24.49)** | (20.86) |
| Aggregate effective tax rate charged to income | **68.60** | 46.67 |

## 29. EARNINGS PER SHARE - BASIC AND DILUTIVE

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Profit after tax | **189,247** | 361,519 |
| Less: Undistributable profit as explained in note 6. | **3,473** | 198,046 |
| Balance distributable profit after tax | **185,774** | 163,473 |
| No of share outstanding | **36,750** | 36,750 |
| Earnings per share on the basis of distributable profit - Rupees | **5.06** | 4.45 |
| Earnings per share on the basis of profit and loss account - Rupees | **5.15** | 9.84 |

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

## 30. CASH GENERATED FROM OPERATIONS

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Profit before taxation | **602,638** | 677,928 |
| Adjustment for non cash charges and other items: | | |
| Depreciation and amortization | **387,771** | 372,147 |
| Profit on disposal of property, plant and equipment | **(13,622)** | (9,016) |
| Employees' retirement benefits | **11,234** | 8,651 |
| Interest income | **(336,681)** | (103,220) |
| Finance cost | **44,258** | 36,429 |
| Working capital changes - note 30.1 | **(126,711)** | 625,384 |
| | **568,887** | 1,608,303 |

### 30.1 Working capital changes

| | | |
|---|---|---|
| (Increase)/decrease in current assets | | |
| Stores and spares | **(13,148)** | 19,971 |
| Trade debts | **(278,167)** | (106,631) |
| Loans, advances and prepayment | **(114,894)** | 37,218 |
| Other receivables | **2,189** | (43) |
| | **(404,020)** | (49,485) |
| Increase in current liabilities | | |
| Accrued and other liabilities | **277,309** | 674,869 |
| | **(126,711)** | 625,384 |

## 31. EMPLOYEES' DEFINED BENEFIT PLANS

### 31.1 Funded benefits

The results of the actuarial valuation carried out as at June 30, 2006 and June 30, 2005 are as follows:

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Mana-gement Pension | Mana-gement Gratuity | Non-Mana-gement Gratuity | Mana-gement Pension | Mana-gement Gratuity | Non-Mana-gement Gratuity |
| | (Rupees in thousand) | | | | | |
| **Reconciliation of payable to defined benefit plan** | | | | | | |
| Present value of defined benefit obligations | 176,155 | 55,884 | 87,131 | 165,985 | 47,658 | 75,791 |
| Fair value of plan assets | (129,628) | (21,750) | (60,738) | (106,431) | (26,278) | (47,683) |
| Net actuarial gains or (losses) not recognized | (30,280) | (26,120) | (18,801) | (45,978) | (13,046) | (15,840) |
| Liability recognized in balance sheet | 16,247 | 8,014 | 7,592 | 13,576 | 8,334 | 12,268 |
| **Movement in payable to defined benefit plan** | | | | | | |
| Opening balance | 13,576 | 8,334 | 12,268 | 10,233 | 9,335 | 10,133 |
| Less Loan receivable from the fund | | | | - | (875) | - |
| Add: Cost for the year | 16,247 | 13,179 | 7,592 | 13,576 | 8,334 | 12,268 |
| | 29,823 | 21,513 | 19,860 | 23,809 | 16,794 | 22,401 |
| Less: Contribution to fund during the year | (13,576) | (13,499) | (12,268) | (10,233) | (8,460) | (10,133) |
| | 16,247 | 8,014 | 7,592 | 13,576 | 8,334 | 12,268 |
| **Movement in fair value of plan assets** | | | | | | |
| Opening balance | 106,431 | 26,278 | 47,683 | 85,425 | 16,884 | 36,652 |
| Contributions | 13,576 | 13,499 | 12,268 | 10,233 | 8,460 | 10,133 |
| Expected return on plan assets | 11,310 | 2,697 | 4,577 | 8,198 | 1,388 | 3,223 |
| Actuarial gain/(loss) on plan assets | 2,950 | (1,506) | (1,612) | 3,246 | 1,086 | (1,472) |
| Benefits paid | (4,639) | (19,218) | (2,178) | (671) | (1,540) | (853) |
| Closing balance | 129,628 | 21,750 | 60,738 | 106,431 | 26,278 | 47,683 |
| **Costs for the year** | | | | | | |
| Current service cost | 9,552 | 5,967 | 4,686 | 8,150 | 5,382 | 4,223 |
| Interest cost | 15,334 | 4,355 | 6,795 | 11,035 | 3,318 | 5,249 |
| Expected return on assets | (11,310) | (2,697) | (4,577) | (8,198) | (1,388) | (3,223) |
| Amortization of actuarial (gain)/loss | 2,671 | 690 | 688 | 2,589 | 1,022 | 517 |
| Recognition of vested past service | - | 4,864 | - | - | - | - |
| Amortization of transitional obligation | - | - | - | - | - | 5,502 |
| Total cost | 16,247 | 13,179 | 7,592 | 13,576 | 8,334 | 12,268 |
| Actual return on plan assets | 14,238 | 1,908 | 3,170 | 11,439 | 1,625 | 1,716 |

### 31.2 Un-funded benefits

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Management | | Non-Management | Management | | Non-Manacgement |
| | Post retirement Leaves | Post retirement Medical | Pension | Post retirement Leaves | Post retirement Medical | Pension |
| | (Rupees in thousand) | | | | | |
| **Reconciliation of payable to defined benefit plan** | | | | | | |
| Present value of defined benefit obligations | **19,806** | **43,752** | **7,226** | 17,997 | 40,162 | 6,179 |
| Net actuarial gains or (losses) not recognized | **-** | **1,729** | **887** | (882) | 1,225 | - |
| Book reserve | **19,806** | **45,481** | **8,113** | 17,115 | 41,387 | 6,179 |
| **Movement in payable to defined benefit plan** | | | | | | |
| Opening balance | **17,115** | **41,387** | **6,179** | 14,496 | 38,414 | 4,891 |
| Add: Cost for the year | **3,716** | **5,097** | **1,934** | 2,935 | 4,429 | 1,288 |
| | **20,831** | **46,484** | **8,113** | 17,431 | 42,843 | 6,179 |
| Less: Payments during the year | **(1,025)** | **(1,003)** | **-** | (316) | (1,456) | - |
| | **19,806** | **45,481** | **8,113** | 17,115 | 41,387 | 6,179 |
| **Annual costs** | | | | | | |
| Current service cost | **1,710** | **1,467** | **1,319** | 1,465 | 1,332 | 1,045 |
| Interest cost | **2,006** | **3,630** | **615** | 1,470 | 3,097 | 243 |
| Total cost | **3,716** | **5,097** | **1,934** | 2,935 | 4,429 | 1,288 |

**31.3** The principal actuarial assumptions used in the actuarial valuation of the defined benefit plans are as under:

| | 2006 | 2005 |
|---|---|---|
| - Discount rate | **9% per annum** | 9% per annum |
| - Expected rate of return on plan assets | **9% per annum** | 10% per annum |
| - Expected rate of salary increase | **9% per annum** | 9% per annum |
| - Expected rate of pension increase | **4% per annum** | 4% per annum |

## 32. FINANCIAL INSTRUMENTS

### 32.1 Financial assets and liabilities

| | 2006 Effective rate | 2005 Effective rate | 2006 Interest bearing | 2006 Non-Interest bearing | 2006 Total | 2005 Interest bearing | 2005 Non-interest bearing | 2005 Total |
|---|---|---|---|---|---|---|---|---|
| | | | (Rupees in thousand) | | | | | |
| **Financial assets** | | | | | | | | |
| Maturity upto one year | | | | | | | | |
| Trade debts | | | - | 1,211,969 | 1,211,969 | - | 954,480 | 954,480 |
| Loans and advances | | | - | 6,588 | 6,588 | - | 6,283 | 6,283 |
| Other receivables | | | - | 33,080 | 33,080 | - | 22,588 | 22,588 |
| Cash and bank balances | 10.67 | 4.11 | 3,161,962 | 3,349 | 3,165,311 | 2,935,635 | 4,330 | 2,939,965 |
| Maturity after one year upto two years | | | | | | | | |
| Loan and advances | | | - | 5,826 | 5,826 | - | 6,646 | 6,646 |
| Long term deposits | | | - | 3,073 | 3,073 | - | 3,157 | 3,157 |
| | | | 3,161,962 | 1,263,885 | 4,425,847 | 2,935,635 | 997,484 | 3,933,119 |
| **Financial liabilities** | | | | | | | | |
| Maturity upto one year | | | | | | | | |
| Long term financing - note 7 | 9.667 | 5.08 | 224,200 | - | 224,200 | 224,200 | - | 224,200 |
| Accrued and other liabilities | | | - | 419,047 | 419,047 | - | 705,508 | 705,508 |
| Maturity after one year upto two years | | | | | | | | |
| Long term financing - note 7 | 9.667 | 5.08 | 112,100 | - | 112,100 | 336,300 | - | 336,300 |
| Employees' retirement benefits | | | - | 73,886 | 73,886 | - | 64,680 | 64,680 |
| | | | 336,300 | 492,933 | 829,233 | 560,500 | 770,188 | 1,330,688 |
| Off balance sheet items: | | | | | | | | |
| Commitments | | | - | 1,865,105 | 1,865,105 | - | 1,027,426 | 1,027,426 |
| Indomnity bonds | | | - | 255,229 | 255,229 | - | 374,890 | 374,890 |
| | | | - | 2,120,334 | 2,120,334 | - | 1,402,316 | 1,402,316 |

### 32.2 Concentration of 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 and balances with banks. Credit risk on liquid funds is limited because the counter parties are banks with reasonable high credit ratings. The company has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of financial assets of Rs. 4,426 million (2005: Rs. 3,933 million), financial assets which are subject to credit risk amounting Rs. 4,423 million (2005: Rs. 3,930 million). To manage exposure to credit risk, the company applies credit limits to its customers. Trade debts are essentially due from fertilizer companies, power generation company and gas distribution company and the company does not expect thse companies to fail to meet rheir obligations.

### 32.3 Liquidity risk

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

### 32.4 Foreign exchange risk

Foreign currency exchange risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where payables exist due to transaction with foreign suppliers.

### 32.5 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximates their fair value.

## 33. REMUNERATION OF DIRECTOR, CHIEF EXECUTIVE AND EXECUTIVE

The aggregate amount charged in these financial statements for the remuneration of Chief Executive and Executives of the Company were as follows:

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Chief Executive** | **Director** | **Executives** | Chief Executive | Director | Executives |
| | (Rupees in thousand) | | | | | |
| Managerial remuneration | **1,494** | **1,365** | **57,457** | 1,397 | 1,288 | 47,261 |
| Company's contribution to provident fund | **636** | **-** | **5,529** | 1,017 | - | 4,537 |
| Housing and utilities | **1,669** | **968** | **43,494** | 1,317 | 925 | 36,588 |
| Other allowances and benefits | **750** | **654** | **57,107** | 1,512 | 624 | 46,638 |
| Bonuses | **375** | **354** | **15,461** | 200 | 219 | 8,388 |
| | **4,924** | **3,341** | **179,048** | 5,443 | 3,056 | 143,412 |
| Number of persons, including those who worked part of the year | **1** | **1** | **65** | 2 | 1 | 54 |

The above are also provided with medical facilities, pension, gratuity and post retirement leave. The Chief Executive and certain executives were provided with free use of company maintained cars, residential telephones and use of club facilities. Executives based at plant site, Daharki are also provided with schooling, shopping trips and subsidized club facilities.

In addition, aggregate amount charged in the financial statements for fee to 14 directors (2005: 14) was Rs. 113,000 (2005: Rs. 125,000).

## 34. CAPACITY AND ACTUAL PRODUCTION

Considering the nature of the Company's business, information regarding capacity has no relevance. The actual production of gas for the year ended June 30, 2006 was 171.045 BSCF (2005 : 162.263 BSCF).

## 35. TRANSACTIONS WITH RELATED PARTIES

Fauji Foundation holds 40% shares of the Company, therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. Other related parties comprise of associated companies, directors, major shareholders, key management personnel and employees' retirement benefit funds and exclude relationships with the Government being a shareholder in the Company. Transactions with related parties other than remuneration and benefits to directors and key management personnel are as follows:

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| | (Rupees in thousand) | |
| Sale of gas to Fauji Fertilizer Company Limited | 8,761,703 | 7,244,698 |
| Sale of gas to Water and Power Development Authority | 7,408,620 | 5,928,716 |
| Sale of gas to Sui Southern Gas Company Limited | 8,376 | 7,150 |
| Sale of material to Oil & Gas Development Company Limited | - | 1,514 |
| Contribution to employees' retirement benefit funds | 46,537 | 42,871 |
| Receivable balances with related parties are as follows: | | |
| Fauji Fertilizers Company Limited | 379,262 | 321,926 |
| Water and Power Development Authority | 679,979 | 536,829 |
| Sui Southern Gas Company Limited | 1,304 | 1,025 |
| Oil & Gas Development Company Limited | - | 1,514 |
| Expenses incurred during the year with related parties; | | |
| Advertisement expenses for golden jubilee celebration of Fauji Foundation | - | 1,625 |

Transactions with related parties are based on the normal commercial practices as between independent businesses.

## 36. NUMBER OF EMPLOYEES

Total number of employees at the end of the year were 378 (2005 : 393).

## 37. CORRESPONDING FIGURES

Previous year's figures have been re-arranged, wherever necessary, for the purpose of comparison. Operating expenses of exploration department and related recoveries from joint ventures have been reclassified with relevant heads of operating expenses and decommissioning cost of Mari Field has been reclassified with tangible fixed asset from intangible fixed assets.

## 38. GENERAL

**38.1** Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

**38.2** These financial statements were authorized for issue on September 21, 2006 by the board of directors of the Company.

**Lt Gen Imtiaz Shaheen (Retd)**
Chief Executive

**Qaiser Javed**
Director

# PROXY FORM

The Company Secretary
Mari Gas Company Limited
21-Mauve Area, 3rd Road,
G-10/4, P.O. Box No. 1614,
**Islamabad.**

I/We, the undersigned, being a member(s) of Mari Gas Company Limited and holder of __________ Ordinary Shares, hereby appoint __________

__________

of __________

__________

whom failing __________

of __________

as my/our proxy to vote and act for me/our behalf, at the 22nd Annual General Meeting of the Company, to be held on October 17, 2006 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this ______ day of ______ 2006.

__________
Signature of the Shareholder

__________
Signature of Proxy

__________
Name in Block Letters
Folio/CDC Ref: __________

**Note:**

1. This instrument appointing a proxy, duly completed, in order to be effective, must be received at the Registered Office of the Company at 21-Mauve Area, 3rd Road, Sector G-10/4, Islamabad not less than 48 hours before the time of holding of Meeting.

2. A member who has deposited shares into Central Depository Company of Pakistan Limited, must bring participant's ID Number and Account/Sub-Account Number alongwith original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting for the purpose of identification.

3. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.

Witnesses:

1. __________
__________
__________

2. __________
__________
__________