



We are pleased to present to you the un-audited financial statements for the 1st quarter ended September 30, 2006.

## **FINANCIAL RESULTS**

Gross sales for the 1st quarter amounted to Rs. 5,703.6 million whereas gross sales for the corresponding period were Rs 4,662.4 million. The increase in sales is mainly due to increase in selling price. The operating results in the financial statements for 1st quarter show profit after tax of Rs 153.8 million as against Rs 94.9 million for the corresponding quarter of the previous income year. The main reason for increase in profit is increase in sale and higher income on placement of funds besides decrease in expenditure incurred on exploration related activities. Presently the shareholders are entitled to guaranteed rate of return of 30% per annum. 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% for each additional 20 MMSCFD of gas or equivalent oil produced, prorated for part thereof on annual basis, subject to a maximum of 45% per annum. Accordingly, based on this arrangement under Gas Price agreement, additional return at 2.18% was provided for in the annual financial statements of the Company for the year ended June 30, 2006. Any adjustment/ variance do not affect the minimum guaranteed rate of return.

## **OPERATING RESULTS**

The Company continued un-interrupted gas supply throughout the period under review to all its customers namely, Engro Chemical Pakistan Limited, Fauji Fertilizer Company Limited, Water and Power Development Authority (WAPDA) and Sui Southern Gas Company Limited. The gas production for the 1st quarter ended September 30, 2006 was 42,601 million standard cubic feet (MMSCF) at an average rate of 463 MMSCF per day as against 42,589 MMSCF during the corresponding period of 2005-06.

Regular maintenance of gas gathering network and production facilities was carried out and production optimization plans were followed to avoid any water coning and loss in production through effective reservoir management.

## **FUTURE CHALLENGES**

### **Mari Habib Rahi Shallow Reservoir**

In order to deplete the reservoir uniformly and to attain maximum recovery factor, the installation of compressors is essential. The Terms of Reference (TOR) in this regard has been prepared and floated to international service companies of repute.

### **Mari Goru-B Deep Reservoir**

In order to supply 109 MMSCFD gas to two IPPs being set up at Daharki, the planning activities are in hand for construction of production facilities for 10 deep wells and drilling of 3 upfront wells. Purchase Requisitions for long lead items have been raised and proposals are being evaluated.

## SML & Pirkoh Reservoir

Pre-spud preparations for drilling of 3 wells each in SML & Pirkoh formations are underway. It is expected that Pirkoh well # 1 would be spud in November 2006 with our own rig whereas the drilling operations for SML appraisal wells would be started in February 2007 by engaging contractor's rig.

## Zarghun South Gas Field

The Zarghun South (ZS) Gas Sale Agreement (GSA) has been executed between SSGCL & MGCL alongwith its joint venture partners on August 28, 2006. The GSA has been submitted to DG (Gas) taking effect from signing of DG (Gas) for its execution on behalf of Government.

The GSA contemplates a 30 months project implementation period i.e. the first supply gas date would be March 31, 2009. It is worth mentioning here that Bolan Joint Venture has to move on fast track basis to accomplish the 1st delivery date in view of the following.

- Security situation in the area.
- The delivery period of long lead items due to the current market situation.
- The revision in budget estimation due to escalation in prices in the E&P sector.

## Welfare Projects

### a. Mass Vaccination against Hepatitis "B"

The vaccination campaign under Phase-II in Union Council Keenjhur Mari Gas Field has been completed on September 15, 2006. Total 28,040 individuals were vaccinated and during screening process 1907 cases were found Hepatitis B positive. The same has also been informed to Local Administration and Local Health Authorities.

Phase-III vaccination campaign in Union Council Beruta will be started in November 2006.

### b. Mother & Child Hospital

Mother and Child Hospital is complete and ready for handing over to the Local Health Department for its operation. The local Administration has been approached in this regard. The project has been completed at a cost of Rs. 11.6 million.

## EXPLORATION ACTIVITIES

The Company's working interest share in onshore exploration licenses is as follows:

i)	Ziarat Exploration License	60.00%	Operator/Partner
ii)	Karak Exploration License	100.00%	Operator
iii)	Noor Exploration License	100.00%	Operator
iv)	Sujawal Exploration License	100.00%	Operator
v)	Hanna Exploration License	100.00%	Operator
vi)	Harnai Exploration License	100.00%	Operator
vii)	Sukkur Exploration License	65.00%	Operator/Partner
viii)	New Nawabshah Exploration License	15.00%	J.V. Partner
ix)	Dadhar Exploration License	27.67%	J.V. Partner
x)	Hala Exploration License	35.00%	J.V. Partner
xi)	Zamurdan Exploration License	20.00%	J.V. Partner
xii)	Kohlu Exploration License	30.00%	J.V. Partner
xiii)	Kalchas Exploration License	20.00%	J.V. Partner
xiv)	Kot Sarang Exploration License	25.00%	J.V. Partner
xv)	Kohat Exploration License	20.00%	J.V. Partner
xvi)	Bannu West Exploration License	10.00%	J.V. Partner

## **Operated Blocks**

The Company plans to acquire 170 line 2D seismic data in Ziarat Block in order to drill the committed exploratory well in the block. The Ziarat discovery was made in fracture carbonate reservoir rocks in the block. In order to understand the fracture patterns and its extents over the gas discovery area, MGCL has initiated a fracture study which is in progress and will be completed by the first week of November 2006.

Processing and reprocessing of newly acquired and vintage seismic data of Karak Block are in progress. Geological studies are also being carried out.

Preparation for 100 line km 2D seismic data acquisition in Noor Block is in progress.

The Company has purchased 500 line km vintage 2D seismic data in Sujawal Block and is being loaded on the workstation for interpretation.

Planning for geological field work and data purchase in respect of Hanna and Harnai Blocks is in progress.

The Company was assigned Sukkur Block alongwith the operatorship of the block on April 20, 2006 and is planning for 2D seismic data acquisition in the Block. Vintage seismic data has been purchased and selected lines will be reprocessed.

## **Non Operated Blocks**

The Kohat joint venture is processing newly acquired seismic data which is expected to be completed by end of November 2006.

Exploratory Well Sarang-1 in Kotsarang Block was spud on June 29, 2006 to test the potential of Eocene / Paleocene carbonates with planned TD of 4200 meter. Presently the well is being drilled down to 3,187meter.

The Interpretation of newly acquired 3D seismic data of Hala Block is in progress. Drilling of exploratory well Adam X-1 is being planned.

The Zamurdan joint venture is processing the newly acquired seismic data and reprocessing the vintage seismic data the processing /reprocessing will be completed by mid of November, 2006.

The Company continues to pursue its evaluation of potential sedimentary basins of the country to identify new exploration areas as well as assessing prospects and negotiating terms for Company's participation in the already awarded blocks through farm-in arrangements with other companies.

For and on behalf of the Board

Islamabad  
October 17, 2006

Lt Gen Syed Arif Hasan HI(M) (Retd)  
Chairman



**MARI GAS COMPANY LIMITED**  
**BALANCE SHEET (UNAUDITED)**  
**AS AT SEPTEMBER 30, 2006**

		Un-audited 30.09.2006	Audited 30.06.2006
	Note	(Rupees in thousand)	
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital 250,000,000 ordinary shares of Rs 10 each		2,500,000	2,500,000
Issued, subscribed and paid up capital		367,500	367,500
General reserve		2,046	2,046
Undistributed percentage return reserve		275,261	275,261
Profit and loss account	4	2,191,660	2,037,839
		<u>2,836,467</u>	<u>2,682,646</u>
<b>LONG TERM FINANCING, PROVISIONS AND DEFERRED LIABILITIES</b>			
Long term financing-secured		-	112,100
Provision for decommissioning cost		1,294,481	1,294,481
Deferred taxation		-	47,920
Other deferred liabilities		84,940	73,886
		<u>1,379,421</u>	<u>1,528,387</u>
<b>CURRENT LIABILITIES</b>			
Current maturity of long term financing - secured		224,200	224,200
Accrued and other liabilities	5	3,280,684	3,193,510
Provision for taxation - net		809,819	589,205
		<u>4,314,703</u>	<u>4,006,915</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	6		
		<u>8,530,591</u>	<u>8,217,948</u>

The annexed notes from 1 to 13 form an integral part of these financial statements.

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

**Qaiser Javed**  
Director



	Note	Un-audited 30.09.2006 (Rupees in thousand)	Audited 30.06.2006
<b>FIXED ASSETS</b>			
Property plant and equipment - tangible	7	3,260,637	3,325,033
Intangible assets		69,962	70,259
		<u>3,330,599</u>	<u>3,395,292</u>
<b>LONG TERM LOANS AND ADVANCES</b>			
- considered good		6,231	5,826
<b>LONG TERM DEPOSITS AND PREPAYMENTS</b>			
		8,603	4,195
<b>DEFERRED TAXATION</b>			
		8,524	-
<b>CURRENT ASSETS</b>			
Stores and spares		164,738	166,947
Trade debts - considered good		1,698,469	1,211,969
Loans, advances - considered good		360,027	207,269
Short term prepayments		43,302	24,343
Other receivables		31,489	36,796
Cash and bank balances		2,878,609	3,165,311
		5,176,634	4,812,635
		<u>8,530,591</u>	<u>8,217,948</u>

The annexed notes from 1 to 13 form an integral part of these financial statements.



**MARI GAS COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THREE MONTHS ENDED SEPTEMBER 30, 2006**

	Note	30.09.2006	30.09.2005
		(Rupees in thousand)	
Gross Sales - to customers		5,701,977	4,661,054
- Own consumption		1,679	1,415
		5,703,656	4,662,469
Less: Gas development surcharge		3,661,964	2,993,225
General sales tax		745,000	607,124
Excise duty		159,002	159,006
Provisional Adjustment/Surplus as per the Mari Gas Wellhead Price Agreement		299,790	152,200
		4,865,756	3,911,555
Sales - net		837,900	750,914
Less: Royalty		104,738	93,864
		733,162	657,050
Operating expenses	8	256,037	247,145
Exploration expenditure		150,016	224,696
		406,053	471,841
Operating profit		327,109	185,209
Other operating income		88,512	68,908
		415,621	254,117
Finance costs		13,283	14,245
Other charges		35,811	23,379
		49,094	37,624
Profit before taxation		366,527	216,493
Taxation	9	212,706	121,594
Profit after taxation		153,821	94,899
<b>Earnings per share - basic and dilutive</b>			
Earning per share on the basis of distributable profit (Rupees)		1.40	1.18
Earnings per share on the basis of Profit and Loss account (Rupees)		4.19	2.58

The annexed notes from 1 to 13 form an integral part of these financial statements.

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

**Kaiser Javed**  
 Director



**MARI GAS COMPANY LIMITED**  
**CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THREE MONTHS ENDED SEPTEMBER 30, 2006**

	Note	30.09.2006	30.09.2005
		(Rupees in thousand)	
<b>Cash flows from operating activities</b>			
Cash generated from operations	10	(141,726)	3,346
Increase in long term loan and advances		(405)	(666)
Increase in long term deposits and prepayments		(4,408)	(5,733)
(Increase)/decrease in deferred credits		8,012	(7,855)
Un-funded employee benefits paid		-	(135)
Taxes paid		(48,536)	(51,898)
Net cash used in operating activities		(187,063)	(62,941)
<b>Cash flows from investing activities</b>			
Purchases of property, plant & equipment		(31,418)	(26,157)
Proceeds from sale of property, plant & equipment		533	1,561
Interest received		93,443	69,811
Net cash from investing activities		62,558	45,215
<b>Cash flows from financing activities</b>			
Repayment of Long term financing		(112,100)	(112,100)
Finance cost paid		(13,538)	(14,490)
Dividends paid		(36,559)	(7,115)
Net cash used in financing activities		(162,197)	(133,705)
Increase in cash and cash equivalents		(286,702)	(151,431)
Cash and cash equivalents at beginning of the period		3,165,311	2,939,965
Cash and cash equivalents at end of the period		2,878,609	2,788,534

The annexed notes from 1 to 13 form an integral part of these financial statements.

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

**Qaiser Javed**  
Director



**MARI GAS COMPANY LIMITED**  
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THREE MONTHS ENDED SEPTEMBER 30, 2006

	<u>Share capital</u>	<u>General reserve</u>	<u>Undistributed percentage return reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
<b>Balance as at June 30, 2005</b>	367,500	2,046	207,749	2,029,955	2,607,250
Profit for the period				94,899	94,899
<b>Balance as at September 30, 2005</b>	367,500	2,046	207,749	2,124,854	2,702,149
Profit for the period	-	-	-	94,348	94,348
Dividends	-	-	-	(113,851)	(113,851)
Transferred to undistributed percentage return reserve	-	-	67,512	(67,512)	-
<b>Balance as at June 30, 2006</b>	367,500	2,046	275,261	2,037,839	2,682,646
Profit for the period	-	-	-	153,821	153,821
<b>Balance as at September 30, 2006</b>	367,500	2,046	275,261	2,191,660	2,836,467

The annexed notes from 1 to 13 form an integral part of these financial statements.

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

**Qaiser Javed**  
Director





**MARI GAS COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE MONTHS ENDED SEPTEMBER 30, 2006**

	30.09.2006	30.06.2006
4.2 Distributable balance	(Rupees in thousand)	
Undistributed guaranteed return	59,436	8,012

This represents guaranteed profit of Rs 51.424 million @31.90% on Shareholders' Funds for three months to September 30, 2006. It also includes the additional return @ 2.18% Rs 8.012 million guaranteed to shareholders on account of increased gas production for the year ended June 30, 2006.

	30.09.2006	30.06.2006
<b>5. ACCRUED AND OTHER LIABILITIES</b>	(Rupees in thousand)	
Gas development surcharge	2,394,305	2,350,350
General sales tax	230,230	227,708
Excise duty	48,537	53,959
Interest on long term loan	570	825
Workers' welfare fund	124,837	109,143
Workers' profits participation fund	20,117	33,303
Staff retirement funds	40,619	31,853
Retention and earnest money deposits	5,695	6,580
Payable to Joint venture partners	11,982	18,590
Other accrued liabilities	100,134	105,489
Unclaimed/unpaid dividend	3,868	40,427
Provisional adjustment / surplus under the provision of the Agreement	299,790	215,283
	<u>3,280,684</u>	<u>3,193,510</u>

**6. CONTINGENCIES AND COMMITMENTS**

**6.1 Interest on delayed payments**

Interest on delayed payment from WAPDA and interest on delayed payment of development surcharge to the Government as at September 30, 2006 amounted to Rs 331.069 million (June 30, 2006: Rs 314.187 million) and Rs 112.392 million (June 30, 2006: 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 Mari Gas Wellhead Price Agreement.

	30.09.2006	30.06.2006
<b>6.2 Other contingencies</b>	(Rupees in thousand)	
Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials	176,859	255,229



**MARI GAS COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE MONTHS ENDED SEPTEMBER 30, 2006**

	30.09.2006	30.06.2006
	(Rupees in thousand)	
<b>6.3 Commitments</b>		
(i) Capital expenditure		
Share in joint ventures	1,680,250	1,743,928
Others	144,552	110,611
	1,824,802	1,854,539
(ii) Operating lease rentals due:		
Less than one year	12,855	4,524
More than one year but less than five years	36,701	6,042
	49,556	10,566

**7. PROPERTY, PLANT AND EQUIPMENT - TANGIBLE**

	Three months ended	
	30.09.2006	30.09.2005
	(Rupees in thousand)	
Opening Book value	3,213,002	3,487,635
Additions during the period - 7.1	24,763	18,793
Written down value of disposals - 7.2	(128)	(30)
Depreciation for the period	(95,690)	(96,551)
	3,141,947	3,409,847
Add: Capital work in progress	118,690	175,113
	3,260,637	3,584,960

**7.1 Additions**

Land	56	198
Building	12,083	4,562
Roads & bridges	2,199	-
Plant, machinery and equipment	3,646	1,407
Drilling expenditure	-	7,834
Gathering lines	-	4,408
Computers	1,590	186
Furniture & fixture	2,207	198
Motor vehicles	2,982	-
	24,763	18,793

**7.2 Disposal**

Plant, machinery and equipment	128	30
Motor vehicles	-	-
	128	30



**8. OPERATING EXPENSES**

	Three months ended	
	30.09.2006	30.09.2005
	(Rupees in thousand)	
Salaries, wages and benefits	78,545	66,515
Employees' retirement benefits	13,819	11,832
Rent, rates and taxes	1,955	875
Legal and professional services	3,760	668
Fuel, light, power and water	9,194	10,101
Maintenance and repairs	3,096	14,882
Insurance	8,120	7,992
Depreciation and amortization	95,986	96,844
Employees medical and welfare	15,269	11,452
Security and other services	23,693	21,912
Travelling	3,309	654
Communications	1,981	1,650
Office supplies	858	1,198
Technical software	2,085	276
Stores and spares consumed	6,232	7,277
Mobile dispensary and social welfare	3,312	4,155
Training	2,872	851
Advertisement	309	345
Books and periodicals	72	79
Miscellaneous	1,052	940
	<u>275,519</u>	<u>260,498</u>
Less: Recoveries from Joint ventures	<u>19,482</u>	<u>13,353</u>
	<u>256,037</u>	<u>247,145</u>

**9. TAXATION**

Current tax	269,150	195,258
Deferred tax	<u>(56,444)</u>	<u>(73,664)</u>
	<u>212,706</u>	<u>121,594</u>

**10. CASH GENERATED FROM OPERATIONS**

	Three months ended	
	30.09.2006	30.09.2005
	(Rupees in thousand)	
Profit before taxation	366,527	216,493
Adjustment for non cash charges and other items:		
Depreciation and amortization	95,986	96,844
Profit on disposal of property, plant and equipment	(405)	(1,532)
Employees' retirement benefits	3,040	1,848
Interest income	(88,248)	(66,038)
Finance cost	13,283	14,245
Working capital changes (note 10.1)	<u>(531,909)</u>	<u>(258,514)</u>
	<u>(141,726)</u>	<u>3,346</u>



**10.1 Working capital changes**

	Three months ended	
	30.09.2006	30.09.2005
	(Rupees in thousand)	
(Increase)/decrease in current assets		
Stores and spares	2,209	2,708
Trade debts	(486,500)	(49,852)
Loans, advances and prepayments	(171,718)	(123,850)
Other receivables	112	2,163
	(655,897)	(168,831)
Increase/(decrease) in current liabilities		
Accrued and other liabilities	123,988	(89,683)
	(531,909)	(258,514)

**11. 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:

	Three months ended	
	30.09.2006	30.09.2005
	(Rupees in thousand)	
Sale of gas to Fauji Fertilizer Company Limited	2,389,267	2,137,282
Sale of gas to Water and Power Development Authority	2,305,838	1,665,215
Sale of gas to Sui Southern Gas Company Limited	2,352	1,615
Sale of material to Oil & Gas Development Company Limited	-	1,125
Contribution to employees' retirement benefit funds	11,258	10,137
	30.09.2006	30.06.2006
	(Rupees in thousand)	
<b>Receivable balances with related parties are as follows:</b>		
Fauji Fertilizers Company Limited	378,782	319,965
Water And Power Development Authority (Wapda)	1,151,880	679,979
Sui Southern Gas Company Limited	1,570	1,304

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

**12. 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 re-classified with relevant heads of operating expenses.

**13. GENERAL**

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

**13.2** These are unaudited financial statements and being submitted as required under Section 245 of the Companies Ordinance, 1984.

**13.3** These financial statements were authorized for issue on October 17, 2006 by the Board of Directors of the Company.

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

**Qaiser Javed**  
Director