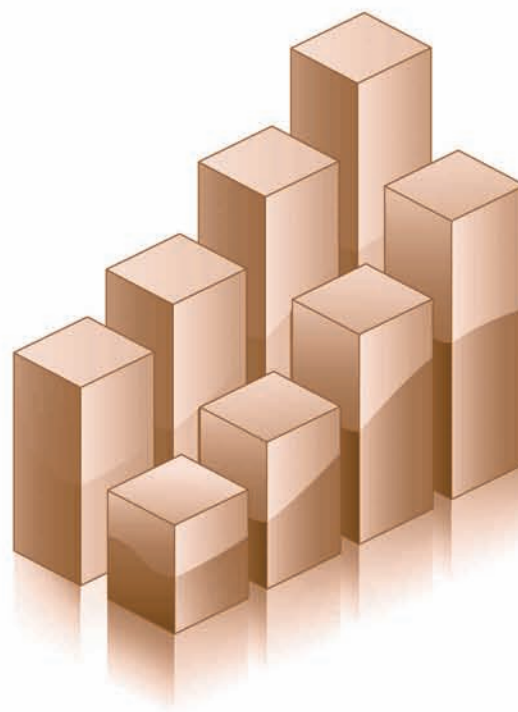




Financial Statements  
2007



# Balance Sheet

as at June 30, 2007

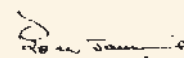
	Note	2007	2006
		(Rupees in thousand)	
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital 250,000,000 ordinary shares of Rs 10 each		2,500,000	2,500,000
Issued, subscribed and paid up capital	4	367,500	367,500
General reserve	5	2,046	2,046
Undistributed percentage return reserve	6	365,053	275,261
Profit and loss account	7	2,513,670	2,037,839
		3,248,269	2,682,646
<b>NON-CURRENT LIABILITIES</b>			
Long term financing - secured	8	–	112,100
Provision for decommissioning cost	9	1,307,728	1,294,481
Deferred Liabilities			
Deferred taxation	17	–	47,920
Employees' retirement benefits	10	49,940	73,886
Deferred income		3,929	–
		53,869	121,806
		1,361,597	1,528,387
<b>CURRENT LIABILITIES</b>			
Current maturity of long term financing - secured	8	112,100	224,200
Accrued and other liabilities	11	3,226,971	3,193,510
Provision for taxation - net		722,522	589,205
		4,061,593	4,006,915
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12	8,671,459	8,217,948

The annexed notes from 1 to 39 form an integral part of these financial statements.

		2007	2006
	Note	(Rupees in thousand)	
<b>NON-CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	13	3,430,295	3,325,033
Intangible assets	14	69,058	70,259
		3,499,353	3,395,292
LONG TERM LOANS AND ADVANCES	15	3,162	5,826
LONG TERM DEPOSITS AND PREPAYMENTS	16	8,747	4,195
DEFERRED TAXATION	17	155,987	-
<b>CURRENT ASSETS</b>			
Stores and spares	18	182,791	166,947
Trade debts	19	1,456,725	1,211,969
Loans and advances	20	501,599	207,269
Short term prepayments	21	6,265	24,343
Interest accrued		23,416	33,080
Other receivables	22	4,205	3,716
Cash and cash equivalents	23	2,829,209	3,165,311
		5,004,210	4,812,635
		<u>8,671,459</u>	<u>8,217,948</u>



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



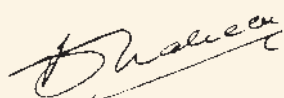
**Qaiser Javed**  
Director

# Profit and Loss Account

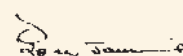
for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
Gross sales to customers		22,205,377	19,647,311
Own consumption		5,706	4,603
		22,211,083	19,651,914
Gas development surcharge		14,059,151	12,824,068
General sales tax		2,898,055	2,562,269
Excise duty		644,236	638,582
Adjustment/surplus payable to the President of Pakistan as per the Agreement		932,630	815,283
		18,534,072	16,840,202
Sales – net		3,677,011	2,811,712
Royalty		459,626	351,464
		3,217,385	2,460,248
Operating expenses	24	1,133,558	1,131,447
Exploration expenditure	25	846,350	984,710
		1,979,908	2,116,157
Operating profit		1,237,477	344,091
Finance cost	26	163,898	44,258
Other charges	27	128,117	63,418
		292,015	107,676
		945,462	236,415
Other income	28	436,682	366,223
Profit before taxation		1,382,144	602,638
Taxation	29	698,259	413,391
Profit for the year		683,885	189,247
Earnings per share – basic and dilutive			
Earnings per share on the basis of distributable profits (Rupees)	30	5.68	5.06
Earnings per share on the basis of profit and loss account (Rupees)	30	18.61	5.15

The annexed notes from 1 to 39 form an integral part of these financial statements.



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



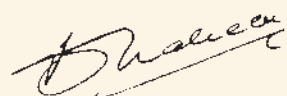
**Qaiser Javed**  
Director

# Cash Flow Statement

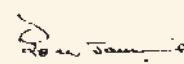
for the year ended June 30, 2007

	Note	2007	2006
(Rupees in thousand)			
<b>Cash flows from operating activities</b>			
Cash generated from operations	31	965,679	568,887
Decrease in long term loans and advances		2,664	820
(Increase)/decrease in long term deposits and prepayments		(4,552)	302
Deferred income		3,929	-
Employees' retirement benefits paid – unfunded		(4,242)	(2,028)
Taxes paid		(768,849)	(199,401)
Net cash from operating activities		194,629	368,580
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(596,820)	(130,214)
Proceeds from sale of property, plant and equipment		1,220	15,293
Interest received		446,390	324,675
Net cash (used in)/from investing activities		(149,210)	209,754
<b>Cash flows from financing activities</b>			
Repayment of long term financing		(224,200)	(224,200)
Finance cost paid		(40,174)	(44,744)
Dividends paid		(117,147)	(84,044)
Net cash used in financing activities		(381,521)	(352,988)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(336,102)</b>	<b>225,346</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>3,165,311</b>	<b>2,939,965</b>
<b>Cash and cash equivalents at end of year</b>	23	<b>2,829,209</b>	<b>3,165,311</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.



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



**Kaiser Javed**  
Director

## Statement of Changes in Equity

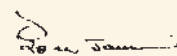
for the year ended June 30, 2007

	Share Capital	General Reserve	Undistributed percentage return reserve	Profit and Loss Account	Total
	(Rupees in thousand)				
<b>Balance as at July 01, 2005</b>	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)	-
<b>Balance as at June 30, 2006</b>	<u>367,500</u>	<u>2,046</u>	<u>275,261</u>	<u>2,037,839</u>	<u>2,682,646</u>
Profit for the year	-	-	-	683,885	683,885
Dividends	-	-	-	(118,262)	(118,262)
Transferred to undistributed percentage return reserve	-	-	89,792	(89,792)	-
<b>Balance as at June 30, 2007</b>	<u>367,500</u>	<u>2,046</u>	<u>365,053</u>	<u>2,513,670</u>	<u>3,248,269</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.



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



**Qaiser Javed**  
Director

# Notes to the Financial Statements

for the year ended June 30, 2007

## 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 of Pakistan. 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 ("the Agreement") dated 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. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

### 2.1 STATEMENT OF COMPLIANCE

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

### 2.2 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IAS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of IAS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in ensuing paragraphs.

#### 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.

# Notes to the Financial Statements

for the year ended June 30, 2007

**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 are 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 amount of provision is regularly reviewed and adjusted to take account of such changes.

**c) Employees' retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note - 32 to the financial statements for determination 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 of 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.

**e) Property, plant and equipment**

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Accounting convention

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

#### 3.2 Gas price mechanism

In terms of the Agreement, 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 32.38% (2006 : 32.18%).

Effective July 01, 2001, the Government has authorized the Company to incur expenditure not exceeding 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 results 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 above.

### **3.3 Taxation**

Provision for current taxation is based on taxable income at the applicable tax rates. The Company accounts for deferred taxation on all timing differences, using the 'liability method' in respect of all major temporary differences between carrying amounts 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, it 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 the availability of depletion allowance.

### **3.4 Provisions**

Provisions are recognized when the Company has a present legal or constructive 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 a reliable estimate can be made of the amount of obligation.

### **3.5 Decommissioning cost**

Estimated decommissioning and restoration cost, 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 present 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; and a corresponding amount is recognized in property, plant and equipment. The present value is calculated using amounts discounted over the useful economic life of the reserves.

### **3.6 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 Method and the latest valuation was carried out as at June 30, 2007. The results of the valuation are summarized in note 32 to these financial statements. Rules of Management Staff Gratuity Fund have been amended with effect from July 01, 2006 which resulted in vested prior service cost of Rs 167.948 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 recognized based on actuarial

# Notes to the Financial Statements

for the year ended June 30, 2007

valuation. The latest valuation was carried out as at June 30, 2007 using discount rate of 10% per annum and pension increase rate of 4% per annum.

- 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 10.066 million (2006 : Rs 9.519 million) has been charged to profit and loss account during the year in respect of this plan using 10% per annum of the basic salary.

Due to change in management staff pension fund, the post retirement medical benefits of management employees previously accrued on the basis of actuarial valuation has been maintained for the current employees only. This has resulted in decrease of Rs 25.695 million in current year cost. The Company has accrued post retirement medical benefits of its management employees based on actuarial valuation carried out as at June 30, 2007 using discount rate of 10% per annum and increase in cost of medical benefit of 7% per annum. An amount of Rs 5.097 million was charged to profit and loss account during the last year.

The Company has accrued post retirement leave benefits of its management employees based on actuarial valuation carried out as at June 30, 2007 using discount rate of 10% per annum and salary increase rate of 10% per annum. An amount of Rs 3.405 million (June 2006: Rs 3.717 million) has been charged to profit and loss account during the year.

### 3.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land which is stated at cost. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in note 3.5.

Depreciation on property, plant and equipment is charged to income using the straight line method at rates specified in note 13 to these financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives without taking into account any residual value. 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 additions 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 credited or charged to income in the year of disposal. Maintenance and repairs are charged to income as and when incurred.

Capital works in progress is stated at cost less impairment loss, if any, and are transferred to respective property, plant and equipment when available for intended use.

### 3.8 Intangible assets

Intangible assets are initially recorded at cost where it is probable that they will generate future economic benefits. Intangible assets include 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.

### **3.9 Impairment**

The carrying amounts 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 as income in the profit and loss account.

### **3.10 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.

### **3.11 Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction. All monetary assets and liabilities in foreign currencies are translated into Pak. rupee at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

### **3.12 Revenue recognition**

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

### **3.13 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.

### **3.14 Licence/lease acquisition costs**

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

### **3.15 Borrowing cost**

Borrowing cost is expensed as incurred.

### **3.16 Financial instruments**

Financial assets and 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 instrument. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

# Notes to the Financial Statements

for the year ended June 30, 2007

Financial assets mainly comprise loans, advances, deposits, trade debts, interest accrued and cash and cash equivalents. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant liabilities are long term financing and accrued and other liabilities.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost, as the case may be.

### **3.17 Trade debts and other receivables**

Trade debts and other receivables are due on normal trade terms. These are carried at original invoiced amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

### **3.18 Cash and cash equivalents**

Cash and cash equivalents for the purposes of cash flow statement comprise cash in hand and at bank. Cash and cash equivalents are carried in balance sheet at cost.

### **3.19 Transactions with related parties**

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

### **3.20 Offsetting**

Financial assets and liabilities and tax assets and liabilities are offset in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

### **3.21 Operating leases**

Rentals payable for vehicles under operating leases are charged to profit and loss account over the term of the relevant lease.

	Note	2007	2006
(Rupees in thousand)			
<b>4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL</b>			
24,850,007 (2006 : 24,850,007) ordinary shares of Rs 10 each issued for cash		248,500	248,500
11,899,993 (2006 : 11,899,993) ordinary shares of Rs 10 each issued for consideration other than cash		119,000	119,000
		<u>367,500</u>	<u>367,500</u>
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%

#### 5. GENERAL RESERVE

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

	Note	2007	2006
(Rupees in thousand)			
<b>6. UNDISTRIBUTED PERCENTAGE RETURN RESERVE</b>			
Balance at beginning of the year		275,261	207,749
Transferred from profit and loss account		89,792	67,512
		<u>365,053</u>	<u>275,261</u>

**6.1** The amount held in this reserve represents the balance of the percentage return reserve on Shareholders' Funds as defined in the Agreement.

#### 7. PROFIT AND LOSS ACCOUNT

The amount of Rs 2,513,670 thousand (2006; Rs 2,037,839 thousand) represents the following:

##### 7.1 Undistributable balance

The amount of Rs 2,504,924 thousand (2006: Rs 2,029,827 thousand), which is not distributable, has been provided through the operation of Article II of the Agreement to meet the obligations and to the extent indicated for the followings:

	Generated upto June 30, 2006	Generated during the year ended June 30, 2007	Total
(Rupees in thousand)			
a) Rupee element of capital expenditure (net of depreciation/ amortization) and repayment of borrowings	1,765,056	475,097	2,240,153
b) Maintenance of debt service ratio	90,234	–	90,234
c) Maintenance of current ratio	174,537	–	174,537
Total	<u>2,029,827</u>	<u>475,097</u>	<u>2,504,924</u>
2006	<u>2,026,354</u>	<u>3,473</u>	<u>2,029,827</u>

# Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
(Rupees in thousand)			
<b>7.2 Distributable balance</b>			
Undistributed guaranteed return		8,746	8,012

This represents the additional 2.38% (2006: 2.18%) guaranteed return to shareholders on account of increase in gas production during the year.

8. LONG TERM FINANCING – SECURED	Note	2007	2006
(Rupees in thousand)			
From Habib bank Limited	8.1	112,100	336,300
Less: Current maturity shown under current liabilities		112,100	224,200
		–	112,100

**8.1** 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 10.1845% (2006 : 9.667%) 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.

**8.2** The Company is in the process of finalizing the Term Financing Agreement amounting to Rs 3.5 billion, with a syndicate of banks led by Bank Alfalah Limited for the purpose of exploration, development and appraisal activities in Karak Block, Mari Field and Ziarat Block regions.

9. PROVISION FOR DECOMMISSIONING COST	Note	2007	2006
(Rupees in thousand)			
Balance at beginning of the year		1,294,481	1,366,791
Borrowing cost		124,264	–
Adjustment		(111,017)	(72,310)
Balance at end of the year		1,307,728	1,294,481
<b>10. EMPLOYEES' RETIREMENT BENEFITS</b>			
<b>Unfunded retirement benefits</b>			
Post retirement medical benefits	32.2	18,471	45,481
Post retirement leave benefits	32.2	20,284	19,806
Pension plan for non-management employees	32.2	10,270	8,113
Others		915	486
		49,940	73,886

	Note	2007	2006
(Rupees in thousand)			
<b>11. ACCRUED AND OTHER LIABILITIES</b>			
Gas development surcharge		2,215,542	2,350,350
General sales tax		223,167	227,708
Excise duty		50,395	53,959
Mark-up on long term financing – secured		285	825
Workers' Welfare Fund		161,747	109,143
Workers' Profit Participation Fund	11.1	75,513	33,303
Funded retirement benefits	32.1	34,558	31,853
Retention and earnest money deposits		6,715	6,580
Payable to joint venture partners		60,016	18,590
Other accrued liabilities		124,861	105,489
Unclaimed/unpaid dividend		41,542	40,427
Adjustment/ surplus payable to the President of Pakistan under the provisions of the Agreement		232,630	215,283
		<u>3,226,971</u>	<u>3,193,510</u>
<b>11.1 Workers' Profit Participation Fund</b>			
Balance at beginning of the year		33,303	37,131
Allocation for the year		75,513	33,303
Interest on delayed payment to the Fund @ 23.24% (2006 : 22.85%) per annum.		1,103	907
		<u>76,616</u>	<u>34,210</u>
Amount paid to the Fund		109,919	71,341
		<u>34,406</u>	<u>38,038</u>
Balance at end of the year		<u>75,513</u>	<u>33,303</u>
<b>12. CONTINGENCIES AND COMMITMENTS</b>			
<b>12.1</b> 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 payments from Water and Power Development Authority (WAPDA) and interest on delayed payments 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 payments of development surcharge to the Government of Pakistan at June 30, 2007 amounting to Rs 400.524 million (2006 : Rs 314.187 million) and Rs 112.392 million (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 Agreement.			

## Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
(Rupees in thousand)			
<b>12.2 Other contingencies</b>			
Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials		187,805	255,229
<b>12.3 Commitments</b>			
(i) Capital expenditure:			
– Share in joint ventures		2,105,161	1,743,928
– Others		840,829	110,611
		2,945,990	1,854,539
(ii) Operating lease rentals due:			
– Less than one year		11,339	4,524
– More than one year but less than five years		27,225	6,042
		38,564	10,566
		<u>2,984,554</u>	<u>1,865,105</u>

### 13 Property, Plant and Equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Roads & bridges	Drilling Tools and equipment	Equipment and general plant	Computers and allied equipment	Gathering lines	Furniture and fixtures	Vehicles heavy	Vehicles light	Drilling expenditure Mari field	Decommissioning cost Mari fields	Decommissioning cost Zafraan and Zafraan South fields	Capital works in progress (note 13.1)	Total
( Rupees in thousands )																	
<b>Cost</b>																	
Balance as at July 01, 2005	82,364	51,362	380,473	45,519	77,213	21,432	348,683	56,687	773,655	36,592	131,888	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)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(110,338)	-	-	(110,338)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(185,929)	(185,929)
Balance as at June 30, 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
Balance as at July 01, 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
Additions during the year	8,431	-	33,659	-	5,039	348	30,633	5,042	10,270	3,179	14,667	7,285	73,365	-	-	598,392	790,310
Disposals	-	-	-	-	-	(21,454)	(7,739)	(5,508)	-	(1,645)	(161)	(1,362)	(80)	-	-	-	(37,949)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(106,486)	(4,531)	(1,572)	(112,589)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(191,918)	(191,918)
Balance as at June 30, 2007	152,069	51,362	438,431	45,519	102,357	326	396,178	57,007	788,333	43,620	140,728	93,387	2,655,512	1,149,968	33,496	516,936	6,665,229
<b>Depreciation</b>																	
Balance as at July 01, 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
On disposals	-	-	-	-	-	-	(4,037)	(504)	-	(139)	(19,824)	(5,901)	-	-	-	-	(30,405)
On transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at June 30, 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
Balance as at July 01, 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
Depreciation for the year	-	959	20,993	2,620	5,769	93	28,721	5,947	37,439	3,323	19,926	9,491	209,364	34,147	-	-	378,792
On disposals	-	-	-	-	-	(21,440)	(6,552)	(5,308)	-	(1,536)	(13)	(1,271)	(80)	-	-	-	(36,200)
On transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at June 30, 2007	-	4,045	151,830	24,134	57,112	85	231,132	49,002	562,892	27,094	124,543	62,053	1,723,561	217,451	-	-	3,234,934
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
Carrying amounts - 2007	152,069	47,317	286,601	21,385	45,245	241	165,046	8,005	225,441	16,526	16,185	31,334	931,951	932,517	33,496	516,936	3,430,295
Rates of depreciation	-	1-3%	5%	5%	10%	20%	10%	25%	10%	10%	30%	20%	10%	10%	10%	10%	3.5

# Notes to the Financial Statements

for the year ended June 30, 2007

	2007	2006
	(Rupees in thousand)	
<b>13.1 CAPITAL WORK IN PROGRESS</b>		
Phase VI project		
Others	1,645	1,637
Mari Deep 12		
Materials and equipment	1,271	1,968
Others	–	263
	1,271	2,231
SML – 1		
Materials and equipment	4,162	4,872
Others	–	2,144
	4,162	7,016
Pirkoh well		
Land	–	181
Buildings, roads and bridges	38	–
Materials and equipment	15,606	6,103
	15,644	6,284
SML – appraisal well		
Land	658	181
Buildings, roads and bridges	6,473	–
Drilling	3,490	–
Materials and equipment	103,133	4,031
	113,754	4,212
3 Up front wells and production facilities		
Land	549	–
Buildings, roads and bridges	3,314	–
Drilling	3,977	–
Materials and equipment	296,810	–
	304,650	–
Support of production		
Buildings, roads and bridges	27,104	48,962
Plant, machinery and others	48,706	41,692
	75,810	90,654
	<u>516,936</u>	<u>112,034</u>

### 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
(Rupees in thousand)						
Computer and allied equipment	180	101	79	–	Assets written off	–
	151	38	113	–	Assets written off	–
Vehicles	1,194	955	239	239	Through auction	Various
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees fifty thousand	36,424	35,106	1,318	981	As per Company policy	–
	<u>37,949</u>	<u>36,200</u>	<u>1,749</u>	<u>1,220</u>		

### 14. INTANGIBLE ASSETS

Descriptionn	Cost			Amortization			Written down value 30, 2007	Annual rate of amortization %
	As at July 01, 2006	Additions/ (deletions)	As at June 30, 2007	As at July 01, 2006	For the year/ (on deletions)	As at June 30, 2007		
(Rupees in thousand)								
Lease acquisition cost – Mari Field	91,147	–	91,147	57,173	1,201	58,374	32,773	Ref. note 3.8
– Zarghun South Field	36,285	–	36,285	–	–	–	36,285	Ref. note 3.8
<b>2007</b>	<u>127,432</u>	<u>–</u>	<u>127,432</u>	<u>57,173</u>	<u>1,201</u>	<u>58,374</u>	<u>69,058</u>	

Descriptionn	Cost			Amortization			Written down value 30, 2006	Annual rate of amortization %
	As at July 01, 2005	Additions/ (deletions)	As at June 30, 2006	As at July 01, 2005	For the year/ (on deletions)	As at June 30, 2006		
(Rupees in thousand)								
Lease acquisition cost – Mari Field	91,147	–	91,147	55,983	1,190	57,173	33,974	Ref. note 3.8
– Zarghun South Field	36,285	–	36,285	–	–	–	36,285	Ref. note 3.8
<b>2006</b>	<u>127,432</u>	<u>–</u>	<u>127,432</u>	<u>55,983</u>	<u>1,190</u>	<u>57,173</u>	<u>70,259</u>	

# Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
(Rupees in thousand)			
<b>15. LONG TERM LOANS AND ADVANCES</b>			
Considered good – secured			
– Executives		3,643	6,626
– Other employees		6,157	5,788
		9,800	12,414
Less: current portion	20		
– Executives		3,298	3,688
– Other employees		3,340	2,900
		6,638	6,588
		3,162	5,826

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

	Balance as at July 01, 2006	Disbursements during the year	Repayments during the year	Balance as at June 30, 2007
(Rupees in thousand)				
Executives	6,626	6,542	9,418	3,750
Other employees	5,788	4,923	4,661	6,050
	12,414	11,465	14,079	9,800
2006	12,929	11,737	12,252	12,414

**15.2** The maximum amount due from executives at the end of any month during the year was Rs 2.561 million (2006 : Rs 7.074 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.

	Note	2007	2006
(Rupees in thousand)			
<b>16. LONG TERM DEPOSITS AND PREPAYMENTS</b>			
Deposits		7,843	3,073
Prepayments		904	1,122
		8,747	4,195
<b>17. Deferred Taxation</b>			
The balance of deferred tax is in respect of following temporary differences:			
Provision for unfunded employees' retirement benefits		12,485	18,350
Exploration expenditure		366,662	222,692
Borrowing cost – decommissioning		31,066	–
Accelerated tax depreciation		(254,226)	(288,962)
Deferred tax asset/(liability)		155,987	(47,920)

	Note	2007	2006
(Rupees in thousand)			
<b>18. STORES AND SPARES</b>			
Stores	18.1	136,141	127,692
Spares		46,650	39,255
		<u>182,791</u>	<u>166,947</u>
<b>18.1</b>	These include stores valuing Rs 0.177 million (2006 : Rs 0.177 million) and Rs 2.441 million (2006: Rs Nil) representing the Company's share in the joint venture operated by ENI Pakistan Limited and Tullow Pakistan (Developments) Limited respectively.		
<b>19. TRADE DEBTS</b>	Note	2007	2006
(Rupees in thousand)			
<b>Associated undertakings – considered good</b>			
Water and Power Development Authority		945,156	679,979
Fauji Fertilizer Company Limited		392,055	379,262
Sui Southern Gas Company Limited		1,545	1,304
		<u>1,338,756</u>	<u>1,060,545</u>
<b>Others – considered good</b>			
Engro Chemical Pakistan Limited		117,969	151,424
		<u>1,456,725</u>	<u>1,211,969</u>
<b>19.1</b>	The maximum aggregate amount outstanding at the end of any month during the year from associated undertakings was Rs 1,750.062 million (2006 : Rs 1,113.085 million).		
<b>20. LOANS AND ADVANCES</b>	Note	2007	2006
(Rupees in thousand)			
Current portion of long term loans and advances – considered good	15		
– Executives		3,298	3,688
– Other employees		3,340	2,900
		<u>6,638</u>	<u>6,588</u>
Advances to suppliers and others		6,443	7,056
Advances to joint venture partners		304,737	96,693
WPPF paid in advance		73,948	–
Royalty paid in advance		109,833	96,932
		<u>501,599</u>	<u>207,269</u>
<b>21. SHORT TERM PREPAYMENTS</b>			
Insurance		–	17,559
Mining lease		2,904	2,921
Rent		244	366
Others		3,117	3,497
		<u>6,265</u>	<u>24,343</u>
<b>22. OTHER RECEIVABLES</b>			
General sales tax paid under protest		1,709	1,709
Receivable from Customs Authorities		365	365
Others		2,131	1,642
		<u>4,205</u>	<u>3,716</u>

# Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
<b>23. CASH AND CASH EQUIVALENTS</b>			
Cash in hand		300	300
Balances with banks on:			
Deposit accounts		2,824,168	3,161,962
Current accounts (including US\$ 6 thousand, 2006 : US\$ 6 thousand)		4,741	3,049
		<u>2,828,909</u>	<u>3,165,011</u>
		<u>2,829,209</u>	<u>3,165,311</u>
<b>24. OPERATING EXPENSES</b>			
Salaries, wages and benefits		366,651	324,160
Employee retirement benefits	24.1	42,823	55,965
Rent, rates and taxes		5,026	8,800
Legal and professional services		15,270	6,767
Fuel, light, power and water		34,487	41,022
Maintenance and repairs		49,508	53,561
Insurance		36,098	32,103
Depreciation and amortization		379,993	387,771
Employees medical and welfare		52,251	47,518
Security and other services		107,625	90,562
Traveling		10,422	7,981
Communications		6,996	7,382
Office supplies		8,610	13,656
Technical software		9,025	2,647
Auditors' remuneration	24.2	764	715
Stores and spares consumed		33,016	33,999
Donations	24.3	-	20,524
Mobile dispensary and social welfare		26,929	36,262
Training		15,921	14,542
Habib Rahi reservoir study		5,534	-
Advertisement		3,398	2,014
Books and periodicals		482	719
Miscellaneous		7,040	6,514
		<u>1,217,869</u>	<u>1,195,184</u>
Less: Recoveries from joint ventures		84,311	63,737
		<u>1,133,558</u>	<u>1,131,447</u>

**24.1** These include Rs 9.755 million (2006: Rs 9.242 million) on account of defined contribution plan.

	Note	2007	2006
		(Rupees in thousand)	
<b>24.2 AUDITORS' REMUNERATION</b>			
Audit fee		287	287
Half year review		100	100
Special reports		184	184
Other certifications		125	78
Out of pocket expenses		68	66
		<u>764</u>	<u>715</u>

**24.3** In the comparative year, donations of Rs. 20.524 million relate to earthquake relief activities carried out by the Company. Donations did not include any amount paid to any person or organization in which a director or his spouse had any interest.

	2007	2006	2007	2006
<b>25. EXPLORATION EXPENDITURE</b>				
<b>Amount expended in terms of note 3.13</b>				
	<b>Working interest (%)</b>		<b>(Rupees in thousand)</b>	
<b>OPERATED BLOCKS</b>				
Zarghun South Field	35.00	35.00	9,217	4,771
Ziarat Block	60.00	60.00	95,747	166,901
Karak Block	100.00	100.00	132,096	141,991
Noor Block	100.00	100.00	76,731	19,329
Hanna Block	60.00	100.00	7,164	336
Harnai Block	60.00	100.00	9,739	324
Sujawal Block	100.00	100.00	15,923	402
Sukkur Block	65.00	100.00	112,703	–
			459,320	334,054
<b>NON – OPERATED BLOCKS</b>				
G Block	5.00	5.00	–	2
Manchar Block	22.50	22.50	–	(578)
Dhadar Block	27.67	27.67	4,734	78,868
Hala Block	35.00	35.00	188,715	86,743
Kot Sarang Block	25.00	25.00	159,569	117,582
Pasni Block	25.00	25.00	–	228,335
Makran Block	25.00	25.00	–	1,571
Nawabshah Block	15.00	15.00	(1,604)	67,234
Kohat Block	20.00	20.00	26,681	58,221
Bannu West Block	10.00	10.00	1,294	1,504
Zamurdan Block	20.00	20.00	3,084	9,088
Kohlu Block	30.00	30.00	2,822	1,294
Kalchas Block	20.00	20.00	1,735	533
Hyderabad Block	25.00	25.00	–	259
			387,030	650,656
			846,350	984,710
<b>25.1 The exploration expenditure comprises of :</b>				
Geological and geophysical			304,589	291,591
Drilling			421,929	601,886
General and administration			119,832	91,233
			846,350	984,710
<b>26. FINANCE COST</b>				
Mark-up on long term financing – secured			38,021	42,816
Borrowing cost – decommissioning			124,264	–
Interest on Workers' Profit Participation Fund			1,102	906
Bank charges			511	536
			163,898	44,258

# Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
<b>27. OTHER CHARGES</b>			
Workers' Profits Participation Fund		75,513	33,303
Workers' Welfare Fund		52,604	30,115
		<u>128,117</u>	<u>63,418</u>
<b>28. OTHER INCOME</b>			
<b>Income from financial assets</b>			
Income on bank deposits		436,726	336,681
<b>Income from non financial assets</b>			
(Loss)/gain on sale of property, plant and equipment		(529)	13,622
Liquidated damages/minimum billing to a customer		–	12,751
Miscellaneous		485	3,169
		<u>(44)</u>	<u>29,542</u>
		<u>436,682</u>	<u>366,223</u>
<b>29. TAXATION</b>			
Provision for taxation			
Current		902,166	516,472
Deferred		(203,907)	(103,081)
		<u>698,259</u>	<u>413,391</u>
		<b>2007</b>	<b>2006</b>
<b>29.1 RECONCILIATION OF EFFECTIVE TAX RATE</b>		<b>%</b>	<b>%</b>
Applicable tax rate		35.00	35.00
Effect of:			
Amounts not deductible for tax purposes		23.62	49.42
Origination and reversal of temporary differences		5.87	8.67
Depletion allowance		(13.97)	(24.49)
Aggregate effective tax rate charged to income		<u>50.52</u>	<u>68.60</u>
		<b>2007</b>	<b>2006</b>
		(Rupees in thousand)	
<b>30. EARNINGS PER SHARE – BASIC AND DILUTIVE</b>			
Profit for the year		683,885	189,247
Undistributable profit as explained in note 7		475,097	3,473
Balance distributable profit after tax		<u>208,788</u>	<u>185,774</u>
Number of shares outstanding (in thousand)		<u>36,750</u>	<u>36,750</u>
Earnings per share on the basis of distributable profits (Rupees)		<u>5.68</u>	<u>5.06</u>
Earnings per share on the basis of profit and loss account (Rupees)		<u>18.61</u>	<u>5.15</u>

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

	Note	2007	2006
(Rupees in thousand)			
<b>31. CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		1,382,144	602,638
Adjustments for:			
Depreciation and amortization		379,993	387,771
Loss/(gain) on disposal of property, plant and equipment		529	(13,622)
Employees' retirement benefits – unfunded		(19,704)	11,234
Interest income		(436,726)	(336,681)
Finance cost		163,898	44,258
Working capital changes	31.1	(504,455)	(126,711)
		<u>965,679</u>	<u>568,887</u>
<b>31.1 Working capital changes</b>			
(Increase)/decrease in current assets			
Stores and spares		(15,844)	(13,148)
Trade debts		(244,756)	(278,167)
Loans and advances		(294,330)	(113,284)
Short term prepayments		18,078	(1,610)
Other receivables		(489)	2,189
		<u>(537,341)</u>	<u>(404,020)</u>
Increase in accrued and other liabilities		32,886	277,309
		<u>(504,455)</u>	<u>(126,711)</u>

# Notes to the Financial Statements

for the year ended June 30, 2007

## 32. EMPLOYEES RETIREMENT BENEFITS

### 32.1 Funded retirement benefits

The results of the actuarial valuation carried out as at June 30, 2007 and June 30, 2006 are as follows:

	2007			2006		
	Management Pension	Management Gratuity	Non Management Gratuity	Management Pension	Management Gratuity	Non-Management Gratuity
	(Rupees in thousand)					
<b>Reconciliation of payable to defined benefit plan</b>						
Present value of defined benefit obligations	11,441	22,252	90,634	176,155	55,884	87,131
Fair value of plan assets	(162,016)	(14,773)	(58,936)	(129,628)	(21,750)	(60,738)
Net actuarial gains/(losses) not recognized	4,572	(41,457)	(17,159)	(30,280)	(26,120)	(18,801)
Liability recognized in balance sheet	(146,003)	166,022	14,539	16,247	8,014	7,592
<b>Movement in payable to defined benefit plan</b>						
Balance at beginning of the year	16,247	8,014	7,592	13,576	8,334	12,268
Add: Cost for the year	(147,425)	192,934	8,495	16,247	13,179	7,592
	(131,178)	200,948	16,087	29,823	21,513	19,860
Less: Contribution to fund during the year	(14,825)	(34,926)	(1,548)	(13,576)	(13,499)	(12,268)
Balance at end of the year	(146,003)	166,022	14,539	16,247	8,014	7,592
<b>Movement in fair value of plan assets</b>						
Balance at beginning of the year	129,628	21,750	60,738	106,431	26,278	47,683
Contributions during the year	14,825	34,926	1,548	13,576	13,499	12,268
Expected return on plan assets	12,257	12,466	5,328	11,310	2,697	4,577
Actuarial gain/(loss) on plan assets	6,287	(10,515)	(2,065)	2,950	(1,506)	(1,612)
Benefits paid	(981)	(43,854)	(6,613)	(4,639)	(19,218)	(2,178)
Balance at end of the year	162,016	14,773	58,936	129,628	21,750	60,738
<b>Costs for the year</b>						
Current service cost	-	15,828	5,119	9,552	5,967	4,686
Interest cost	1,010	19,913	7,863	15,334	4,355	6,795
Expected return on assets	(12,257)	(12,466)	(5,328)	(11,310)	(2,697)	(4,577)
Amortization of actuarial loss	-	1,711	841	2,671	690	688
Immediate recognition of curtailment gain	(136,178)	-	-	-	-	-
Recognition of vested past service cost	-	167,948	-	-	4,864	-
Total cost	(147,425)	192,934	8,495	16,247	13,179	7,592
Actual return on plan assets	14,825	1,945	4,850	14,238	1,908	3,170

### 32.2 Un-funded retirement benefits

	2007			2006		
	Management	Non Management		Management	Non-Management	
	Post retirement Leaves	Post retirement Medical	Pension	Post retirement Leaves	Post retirement Medical	Pension
	(Rupees in thousand)					
<b>Reconciliation of payable to defined benefit plan</b>						
Present value of defined benefit obligations	20,284	21,065	7,699	19,806	43,752	7,226
Net actuarial (losses)/gains not recognized	-	(2,594)	2,571	-	1,729	887
Book reserve	20,284	18,471	10,270	19,806	45,481	8,113
<b>Movement in payable to defined benefit plan</b>						
Balance at beginning of the year	19,806	45,481	8,113	17,115	41,387	6,179
Add: Cost for the year	3,405	(25,695)	2,157	3,716	5,097	1,934
	23,211	19,786	10,270	20,831	46,484	8,113
Less: Payments during the year	(2,927)	(1,315)	-	(1,025)	(1,003)	-
	20,284	18,471	10,270	19,806	45,481	8,113
<b>Costs for the year</b>						
Current service cost	1,539	-	1,455	1,710	1,467	1,319
Interest cost	1,729	1,535	716	2,006	3,630	615
Immediate recognition of curtailment loss/(gain)	137	(27,230)	(14)	-	-	-
Total cost	3,405	(25,695)	2,157	3,716	5,097	1,934

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

	2007	2006
- Discount rate	10% per annum	9% per annum
- Expected rate of return on plan assets	10% per annum	9% per annum
- Expected rate of salary increase	10% per annum	9% per annum
- Expected rate of pension increase	4% per annum	4% per annum

### 33. FINANCIAL INSTRUMENTS

#### 33.1 Financial assets and liabilities:

	2007		2006		2007		2006	
	Effective rate	Effective rate	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	%	%	(Rupees in thousand)					
<b>Financial assets:</b>								
Maturity upto one year								
Trade debts			-	1,456,725	1,456,725	-	1,211,969	1,211,969
Loans and advances			-	6,638	6,638	-	6,588	6,588
Interest accrued			-	23,416	23,416	-	33,080	33,080
Cash and cash equivalents	10.73	10.67	2,824,168	5,041	2,829,209	3,161,962	3,349	3,165,311
Maturity after more than one year								
Long term loans and advances			-	3,162	3,162	-	5,826	5,826
Long term deposits			-	7,843	7,843	-	3,073	3,073
			2,824,168	1,502,825	4,326,993	3,161,962	1,263,885	4,425,847
<b>Financial liabilities:</b>								
Maturity upto one year								
Long term financing – secured	10.18	9.667	112,100	-	112,100	224,200	-	224,200
Accrued and other liabilities			-	500,607	500,607	-	419,047	419,047
Maturity after more than one year								
Long term financing – secured	10.18	9.667	-	-	-	112,100	-	112,100
Employees' retirement benefits			-	49,940	49,940	-	73,886	73,886
			112,100	550,547	662,647	336,300	492,933	829,233
<b>On balance sheet gap:</b>			2,712,068	952,278	3,664,346	2,825,662	770,952	3,596,614
<b>Off balance sheet items:</b>								
Commitments			-	2,984,554	2,984,554	-	1,865,105	1,865,105
Indemnity bonds			-	187,805	187,805	-	255,229	255,229
			-	3,172,359	3,172,359	-	2,120,334	2,120,334

#### 33.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail 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 amounting to Rs. 4,327 million (2006: Rs 4,426 million), financial assets which are subject to credit risk amount to Rs 4,319 million (2006: Rs 4,423 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 these companies to fail in meeting their obligations.

#### 33.3 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 requirements.

# Notes to the Financial Statements

for the year ended June 30, 2007

## 33.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company is not exposed to any significant currency risk.

## 33.5 Fair value of financial assets and liabilities

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

## 34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

The aggregate amount charged in these financial statements as remuneration and allowances, including all benefits, to chief executive, director and executives of the Company was as follows:

	2007			2006		
	Chief Executive	Director	Executives	Executive	Director	Executives
	(Rupees in thousand)					
Managerial remuneration	1,725	1,475	62,172	1,494	1,365	57,457
Company's contribution to provident fund	1,086	–	6,112	636	–	5,529
Housing and utilities	1,798	1,183	51,151	1,669	968	43,494
Other allowances and benefits	756	1,292	80,520	750	654	57,107
Bonuses	151	128	4,812	375	354	15,461
	<u>5,516</u>	<u>4,078</u>	<u>204,767</u>	<u>4,924</u>	<u>3,341</u>	<u>179,048</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>1</u>	<u>69</u>	<u>1</u>	<u>1</u>	<u>65</u>

The above were also provided with medical facilities, pension, gratuity and post retirement leave benefits. The chief executive and certain executives were provided with free use of the Company maintained cars, residential telephones and use of club facilities. Executives based at plant site, Daharki, are also provided with schooling and subsidized club facilities.

In addition, aggregate amount charged in the financial statements as fee including traveling cost to 14 directors (2006 : 14) was Rs 147,076 (2006 : Rs 333,130).

## 35. 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, 2007 was 172.465 BSCF (2006 : 171.045 BSCF).

## 36. 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 relationship 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:



Note	2007	2006
(Rupees in thousand)		
<b>Sale of gas to related parties are as follows:</b>		
Fauji Fertilizer Company Limited	9,609,837	8,761,703
Water and Power Development Authority	8,794,232	7,408,620
Sui Southern Gas Company Limited	11,283	8,376
<b>Contribution to employee benefit funds</b>	64,070	46,537
<b>Receivable balances with related parties are as follows:</b>		
Fauji Fertilizers Company Limited	392,055	379,262
Water and Power Development Authority	945,156	679,979
Sui Southern Gas Company Limited	1,545	1,304

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

**37. NUMBER OF EMPLOYEES**

Total number of employees at end of the year were 371 (2006 : 378).


**38. CORRESPONDING FIGURES**

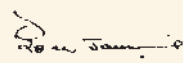
The comparative figures have been re-arranged and /or reclassified, wherever necessary, for the purpose of comparison in the financial statements. During the year management has reclassified other receivables and interest accrued has been disclosed separately.

**39. GENERAL**

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

**39.2** These financial statements were authorized for issue on September 26, 2007 by the Board of Directors of the Company.

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

  
**Qaiser Javed**  
Director

# Notes

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# 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 23rd Annual General Meeting of the Company, to be held on October 23, 2007 and at any adjournment thereof.

Affix  
Revenue  
Stamp

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2007.

\_\_\_\_\_  
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. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



The Company Secretary  
**MARI GAS COMPANY LIMITED**  
21-Mauve Area, 3rd Road,  
Sector G-10/4, P.O. Box 1614,  
ISLAMABAD.

AFFIX  
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