

MARI GAS COMPANY LIMITED DIRECTORS' REVIEW

We are pleased to present to you the un-audited financial statements for the 1st quarter ended September 30, 2005 (Financial Year 2005-2006).

Financial Results

Gross Sales for the 1st quarter amounted to Rs 4,662 million against the gross sales of corresponding quarter of Rs 3,987 million due to increase in production and average selling price. Company's contribution to the Government Exchequer amounted to Rs. 4,224 million against Rs. 3,662 million in the comparative quarter. The operating expenses amounted to Rs. 236 million against Rs. 237 million in the comparative quarter. The operating results in the un-audited financial statements for the 1st quarter ended September 30, 2005 show profit after tax of Rs 95 million as against Rs 81 million for the corresponding quarter of the previous income year. 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 @ 0.98% was provided for in the annual accounts of the Company for the year ended June 30, 2005. Any adjustment / variance does not affect the minimum guaranteed rate of return.

Operations

The gas production for the 1st quarter ended September 30, 2005 was 42,589 million standard cubic feet (MMSCF) at an average rate of 463 MMSCF per day. The corresponding volume of gas production for the same period of 2004 was 41,484 MMSCF at an average rate of 451 MMSCF per day.

Future Expansion/Development

Mari Habib Rahi Shallow Reservoir

The installation of compressors on Shallow Habib Rahi Reservoir wells is a vital requirement for depleting the reservoir uniformly and to meet pressure requirement of the customers. Arrangements for compression facility are in process and are expected to be finalized by the 1st quarter of year 2006.

Mari Goru-B Deep Reservoir

Apart from the exploration activities outside Mari field, MGCL has also been actively involved in enhancing its reserves of Mari D & P Lease and has made a considerable progress in this regard by adding 1.210 TCF recoverable reserves as concluded by reservoir consultant through discovery in a deeper horizon i.e. Goru-B Reservoir. Economic Coordination Committee (ECC) has dedicated the deep gas for Power Sector. Accordingly, Private Power Infrastructure Board (PPIB) allocated 100 MMSCFD gas for setting up power projects of 300MW capacity near Mari Field. IPPs are making necessary arrangements for setting up Power Plants and simultaneously MGCL is designing production facilities for the supply of this gas on commercial basis.

Mari Sui Main Limestone

Last year, the Company made another gas discovery in its Mari D & P lease area in Sui and Pirkoh Limestone formations. The Company is planning to appraise and develop the reservoir in the near future.

Zarghun South Gas Field

The Government had approved the commerciality and development plan for Zarghun South. According to development plan, the facilities and pipeline shall be completed in 28 months after signing of the GSA.

Ziarat Exploratory Well-1

MGCL entered into 1st ever operations outside Mari D&P lease area with spud in of Ziarat Exploratory Well # 1 as an operator on September 28, 2005.

Exploration Activities

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

i)	ZIARAT EXPLORATION LICENSE	60.00%	Operator/Partner
ii)	BOLAN BLOCK-Zarghun South D&P Lease	35.00%	Operator/Partner
iii)	KARAK EXPLORATION LICENSE	100.00%	Operator
iv)	NOOR EXPLORATION LICENSE	100.00%	Operator
v)	NAWABSHAH EXPLORATION LICENSE	15.00%	J.V. Partner
vi)	DADHAR EXPLORATION LICENSE	27.67%	J.V. Partner
vii)	HALA EXPLORATION LICENSE	35.00%	J.V. Partner
viii)	ZAMURDAN EXPLORATION LICENSE	20.00%	J.V. Partner
ix)	KOHLU EXPLORATION LICENSE	40.00%	J.V. Partner
x)	KALCHAS EXPLORATION LICENSE	40.00%	J.V. Partner
xi)	PASNI EXPLORATION LICENSE	25.00%	J.V. Partner
xii)	OFFSHORE MAKRAN CENTRAL EXPLORATION LICENSE	25.00%	J.V. Partner
xiii)	KOT SARANG EXPLORATION LICENSE	25.00%	J.V. Partner

The Nawabshah Block Joint Venture has mapped a Hakim Daho West prospect and plans to spud its firm commitment well by October 22, 2005. The Company awaits Government's approval of the farm-in deal with Tullow for acquisition of 20% and 10% in their Kohat and Bannu-west Blocks respectively against a swap farm-out of 20% and 10% interests respectively from its 40% share in Kalchas and Kohlu Blocks to enable execution of Deeds of Assignment with the Government and implement the transfer of interests in these Blocks.

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

Lt Gen Syed Muhammad Amjad (Retd)
Chairman

Islamabad
October 24, 2005



MARI GAS COMPANY LIMITED

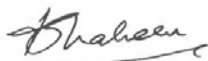
BALANCE SHEET (UNAUDITED)

AS AT SEPTEMBER 30, 2005

		30.09.2005	30.06.2005
	Note	(Rupees in thousand)	
SHARE CAPITAL, RESERVES AND SURPLUS			
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		207,749	207,749
Profit and loss account	4	2,124,854	2,029,955
		2,702,149	2,607,250
LONG TERM LOAN AND DEFERRED LIABILITIES			
Long term loan-secured		224,200	336,300
Deferred income tax		77,339	151,002
Decommissioning cost		1,366,791	1,366,791
Other deferred liabilities		79,219	85,359
		1,747,549	1,939,452
CURRENT LIABILITIES			
Current maturity of long term loan		224,200	224,200
Accrued and other liabilities	5	2,789,836	2,886,881
Income Tax		415,491	272,131
		3,429,527	3,383,212
CONTINGENCIES AND COMMITMENTS			
	6		
		7,879,225	7,929,914

The annexed notes from 1 to 18 form an integral part of these financial statements.

		30.09.2005	30.06.2005
	Note	(Rupees in thousand)	
FIXED ASSETS			
Property plant and equipment	7	2,374,064	2,434,296
Intangible assets		1,282,051	1,292,534
		3,656,115	3,726,830
 LONG TERM LOANS AND ADVANCES			
- considered good		7,312	6,646
 LONG TERM DEPOSITS AND PREPAYMENTS			
		10,230	4,497
 CURRENT ASSETS			
Stores and spares		151,091	153,799
Trade debts - considered good		1,004,332	954,480
Loans, advances and prepayments	8	240,568	116,718
Other receivables		21,043	26,979
Cash and bank balances		2,788,534	2,939,965
		4,205,568	4,191,941
		7,879,225	7,929,914



Lt Gen Imtiaz Shaheen (Retd)
Chief Executive



Qaiser Javed
Director



MARI GAS COMPANY LIMITED
PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THREE MONTHS ENDED SEPTEMBER 30, 2005

		30.09.2005	30.09.2004
	Note	(Rupees in thousand)	
Sales	9	4,510,269	3,783,853
Less: Development surcharge		2,993,225	2,554,608
General sales tax		607,124	517,762
Excise duty		159,006	154,777
		3,759,355	3,227,147
Sales - net		750,914	556,706
Less: Royalty		93,864	69,494
		657,050	487,212
Operating expenses	10	236,349	237,425
Exploration expenditure	11	235,492	20,900
		471,841	258,325
Operating profit		185,209	228,887
Other operating income		68,908	16,472
		254,117	245,359
Finance costs		14,245	9,336
Other charges	12	23,379	20,075
		37,624	29,411
Profit before taxation		216,493	215,948
Taxation	13	121,594	134,994
Profit after taxation		94,899	80,954
Basic earnings per share - Rupees	14	2.58	2.20

The annexed notes from 1 to 18 form an integral part of these financial statements.

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director



MARI GAS COMPANY LIMITED
CASH FLOW STATEMENT (UNAUDITED)
FOR THREE MONTHS ENDED SEPTEMBER 30, 2005

	Note	30.09.2005	30.09.2004
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	15	3,210	337,979
Payment of long term loans and advances		(666)	(2,289)
(Increase)/decrease in long term deposits and prepayments		(5,733)	148
(Increase)/decrease in deferred credits		(7,855)	(17,230)
Taxes paid		(51,898)	(44,671)
Net cash generated from operations		(62,942)	273,937
Cash flows from investing activities			
Purchases of property, plant & equipment		(26,157)	(12,724)
Proceeds from sale of property, plant & equipment		1,562	1,004
Interest received		69,811	14,455
Net cash used in investing activities		45,216	2,735
Cash flows from financing activities			
Long-term loan repaid		(112,100)	(112,100)
Finance cost paid		(14,490)	(9,306)
Dividends paid		(7,115)	(7,208)
Net cash used in financing activities		(133,705)	(128,614)
Increase in cash and cash equivalents		(151,431)	148,058
Cash and cash equivalents at beginning of the period		2,939,965	2,083,645
Cash and cash equivalents at end of the period		2,788,534	2,231,703

The annexed notes from 1 to 18 form an integral part of these financial statements.


Lt Gen Imtiaz Shaheen (Retd)
Chief Executive


Kaiser 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 December 22, 1985 between the President of Islamic Republic of Pakistan and the Company. The registered office of the Company is situated at 21 Mouve Area, 3rd road G-10/4, Islamabad.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the requirements of International Accounting Standard 34, "Interim Financial Reporting".

The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of annual audited financial statements of the company for the year ended June 30, 2005.

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 Shareholder 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 Shareholder 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%.

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.

4. PROFIT AND LOSS ACCOUNT

The amount of Rs 2,124.854 million represents the following:

4.1 Undistributable balance

The amount of Rs 2,077.956 million, 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 period ended Sept. 30, 2005	Total as at September 30, 2005
	(Rupees in thousand)		
a) Rupee element of capital expenditure (net of depreciation/amortization) and repayment of borrowings	1,761,583	51,602	1,813,185
b) Maintenance of debt service ratio	90,234	-	90,234
c) Maintenance of current ratio	174,537	-	174,537
Total	<u>2,026,354</u>	<u>51,602</u>	<u>2,077,956</u>
2005	<u>1,828,308</u>	<u>198,046</u>	<u>2,026,354</u>

	<u>30.09.2005</u>	<u>30.06.2005</u>
4.2 Distributable balance	(Rupees in thousand)	
Undistributed guaranteed return	<u>46,898</u>	<u>3,601</u>

This represents guaranteed profit of Rs 43.297 million @30% on shareholders' fund for three months to September 30, 2005. It also includes the additional return @ 0.98% Rs 3.6 million guaranteed to shareholders on account of increased gas production for the last year.

	<u>30.09.2005</u>	<u>30.06.2005</u>
5. ACCRUED AND OTHER LIABILITIES	(Rupees in thousand)	
Gas development surcharge	1,980,104	1,831,405
General sales tax	195,221	181,729
Excise duty	50,894	52,080
Interest on long term loan	1,066	1,311
Payable to Joint venture partners	175,118	137,377
Workers' welfare fund	90,413	79,028
Workers' profits participation fund	11,994	37,131
Staff retirement benefits	42,217	34,178
Retention and earnest money deposits	6,330	6,082
Unclaimed/unpaid dividend	3,504	10,619
Other accrued liabilities	80,775	96,862
Gas price surplus due to the President under the provisions of Mari Gas Wellhead Price Agreement	152,200	419,079
	<u>2,789,836</u>	<u>2,886,881</u>

6. CONTINGENCIES AND COMMITMENTS

6.1 Interest on delayed payments

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 as at September 30, 2005 amounted to Rs 282.075 million (June 30, 2005: Rs 271.041 million) and Rs 112.392 million (June 30, 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 Mari Gas Wellhead Price Agreement.

6.2 Other contingencies

	<u>30.09.2005</u>	<u>30.06.2005</u>
	(Rupees in thousand)	
(i) Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials	374,890	374,890
(ii) Regulatory custom duty, not accepted by the Company	10,059	10,059

	<u>30.09.2005</u>	<u>30.06.2005</u>
	(Rupees in thousand)	
6.3 Commitments		
(i) Capital and exploration expenditure		
Share in joint ventures	550,088	969,491
Others	25,679	43,341
	575,767	1,012,832
(ii) Operating lease rentals due:		
Less than one year	5,086	5,070
More than one year but less than five years	8,296	9,524
	13,382	14,594
Three months ended		
7. PROPERTY, PLANT AND EQUIPMENT	<u>30.09.2005</u>	<u>30.09.2004</u>
	(Rupees in thousand)	
COST		
Opening balance	4,824,755	5,788,566
Additions during the period	26,159	23,615
Disposals during the period	(3,056)	(1,122)
Closing balance	<u>4,847,858</u>	<u>5,811,059</u>
ACCUMULATED DEPRECIATION		
Opening balance	2,390,459	2,242,408
Charge for the period	86,362	95,197
Relating to disposals	(3,027)	(1,076)
Closing balance	<u>2,473,794</u>	<u>2,336,529</u>
NET BOOK VALUE	<u>2,374,064</u>	<u>3,474,530</u>
8. LOANS, ADVANCES AND PREPAYMENTS	<u>30.09.2005</u>	<u>30.06.2005</u>
	(Rupees in thousand)	
Loans and advances to employees	7,230	6,283
Advances to suppliers and others	8,531	5,179
Short term prepayments	22,485	22,733
Royalty paid in advance	36,587	20,240
Advances to joint ventures	165,735	62,283
	<u>240,568</u>	<u>116,718</u>

9. SALES	Three months ended	
	30.09.2005	30.09.2004
	(Rupees in thousand)	
9.1 Gross sales (including internal consumption)	4,662,469	3,986,743
Less: Provisional adjustment representing surplus payable to the President under the provisions of Mari Gas Wellhead Price Agreement - note 9.2	152,200	202,890
	<u>4,510,269</u>	<u>3,783,853</u>
9.2 The provisional adjustment has been determined in accordance with the provisions of Mari Gas Wellhead Price Agreement . Final adjustment in this respect will be determined at the year end.		

10. OPERATING EXPENSES	Three months ended	
	30.09.2005	30.09.2004
	(Rupees in thousand)	
Salaries, wages and benefits	59,097	53,896
Employees' retirement benefits	10,792	9,429
Rent, rates and taxes	774	1,213
Lease rentals	985	1,133
Legal and professional services	288	469
Fuel, light, power and water	9,800	8,523
Maintenance and repairs	12,895	5,424
Insurance	7,992	7,793
Depreciation and amortization	96,844	95,197
Employees medical and welfare	9,905	10,602
Security and other services	21,912	18,924
Travelling	598	1,595
Communications	1,638	2,346
Printing, stationery and supplies	1,190	1,562
Technical software and data purchase	182	23
Stores and spares consumed	7,277	8,448
Donations	-	100
Mobile dispensary and social welfare	4,155	3,664
Training	972	4,500
Goru B reservoir study	-	5,385
Advertisement	345	386
Books and periodicals	79	50
Miscellaneous	879	1,406
	<u>248,599</u>	<u>242,068</u>
Less: Recovery from Joint ventures	12,250	4,643
	<u>236,349</u>	<u>237,425</u>

15.1 Working capital changes	Three months ended	
	30.09.2005	30.09.2004
	(Rupees in thousand)	
(Increase)/decrease in current assets		
Stores and spares	2,708	9,610
Trade debts	(49,852)	(81,187)
Loans, advances and prepayments	(123,850)	(26,777)
Other receivables	2,163	(4,000)
	<u>(168,829)</u>	<u>(102,354)</u>
Accrued and other liabilities	(89,685)	136,307
	<u>(258,514)</u>	<u>33,953</u>

16. 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	
	30.09.2005	30.09.2004
	(Rupees in thousand)	
Sale of gas to Fauji Fertilizer Company Limited	2,137,282	1,804,608
Sale of material to Oil & Gas Development Company Limited	1,125	1,845
Contribution to employees' retirement benefit funds	9,153	9,335
Receivable balances with related parties are as follows:		
Fauji Fertilizers Company Limited	319,965	299,038
Oil & Gas Development Company Limited	-	1,845

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

17. GENERAL

17.1 These are unaudited financial statements and being submitted as required by SECP under Section 246 of the Companies Ordinance, 1984.

17.2 Previous year's figures have been re-arranged, wherever necessary, for the purpose of comparison.

18. DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 24, 2005 by the Board of Directors of the Company.


Lt Gen Imtiaz Shaheen (Retd)
Chief Executive


Qaiser Javed
Director