

MARI GAS COMPANY LIMITED

ANNUAL REPORT 1997

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Company Information

Legal Advisors

Orr Dignam & Company
Khan & Piracha

Auditors

A.F. Ferguson & Company
Chartered Accountants

Bankers

Habib Bank Limited
United Bank Limited
Bank of America
Citibank, N.A.
Allied Bank of Pakistan Limited
Muslim Commercial Bank Limited

Registered Office

21- Mauve Area,
3rd Road,
Sector G-10/4,
Islamabad

Board of Directors

Chairman

Lt. Gen. Khalid Latif Moghal (Retd)

Managing Director

Fauji Foundation

Chief Executive

Lt. Gen. Ghulam Muhammad Malik (Retd)

Managing Director

Mari Gas Company Limited

Director

Mr. Iitifat Rasul Khan

Director Finance

Fauji Foundation

Director

Brig. Sayyed Ifzal Hussain (Retd)

Director Sugar

Fauji Foundation

Director

Brig. Riaz Ahmed Qureshi (Retd)

Director P&A

Fauji Foundation

Director

Brig. Muhammad Saeed Baig (Retd)

Director P & D

Fauji Foundation

Director

Mr. Abdus Sattar

Financial Advisor P&NR

Government of Pakistan

Director

Mr. Shahid Ahmad

Director General (PC)

Government of Pakistan

Director

Mr. M Tajuddin Khan Sherwani

Director LPG

Government of Pakistan

Director

Mr. Shahid Akbar

Chairman

OGDC

Director

Mr. Najam K. Hyder

Acting G.M.

Joint Venture/Production

OGDC

Director

Mr. EQ. Usmani

Executive Director

Technical Services & Support

OGDC

Director

Mr. Abdul Rahman

Businessman

Director

Mr. Abdul Waheed

Businessman

Company Secretary

Mr. Khurram Khan

Notice of Annual General Meeting

Notice is hereby given that the thirteenth Annual General Meeting of the Shareholders of Mari Gas Company Limited will be held on Monday, December 22, 1997 at 9:30 a.m. at 21- Mauve Area, 3rd Road, Sector G-10/4, Islamabad to transact the following business:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 1997, together with the Directors' and Auditors' Reports thereon.

2. To appoint Auditors for the year 1997-98 and fix their remuneration.

Islamabad, November 25, 1997.

NOTES:

1. The Share Transfer Books of the Company will remain closed from December 16, 1997 to December 22, 1997 (both days inclusive).

2. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy. The instrument of proxy duly executed in accordance with the articles of association of the Company must be deposited at the registered office of the Company at Islamabad, at least 48 hours before the time of holding the meeting.

3. Shareholders are requested to promptly notify the Company of any change in their address.

Financial Highlights

		1996-97	1995-96
Revenue	Rs. Million	5,098.45	3,909.77
Government levies	Rs. Million	4,619.60	3,544.23
Profit before tax	Rs. Million	218.58	87.92
Profit after tax	Rs. Million	196.74	75.09
Dividend per share	Rs.	2.25	2.25
Tangible fixed assets (Gross)	Rs. Million	1,774.73	1,416.78
Number of shares issued and subscribed	Million	36.75	21.00

Directors' Report

The Directors take pleasure in presenting their report together with the audited accounts of the Company and the Auditors' report thereon for the year ended June 30, 1997.

OPERATIONS

The Company continued un-interrupted gas supply throughout the year under review to all its customers namely, Fauji Fertilizer Company Ltd, Engro Chemical Pakistan Ltd, Pak Saudi Fertilizer Company Ltd, and Water and Power Development Authority (WAPDA). The cumulative gas produced during the year ended June 30, 1997 was 135,859.808 million standard cubic feet (MMSCF) as against 133,167.650 (MMSCF) during the corresponding period of 1995-96. The daily average gas production for the year was 372.218 MMSCF as compared to 364.039 MMSCF last year.

The gas allocation to fertilizer companies for producing fertilizer and to WAPDA for power generation remained the same during the year at 336 MMSCFD and 66 MMSCFD respectively.

Regular maintenance of the field infrastructure and equipment was carried out and reservoir monitoring was conducted throughout the year for preventing any breakdowns and controlling water conning problems in wells.

FUTURE CHALLENGES

The Company, by the grace of Almighty Allah, has completed the Deep Well - 1. A new reservoir has been discovered in the deeper horizon which when developed and exploited to its full capacity would open up new avenues of progress for the Company.

The drilling of Deep Well - 2, spud in on October 28, 1997, is progressing smoothly. According to the seismic survey and study of the acquired data, the prospects of discovering yet another reservoir are promising.

FINANCIAL RESULTS

The profit and appropriation for the year are as follows:

	Rs. '000
PROFIT	
- Profit for the year under review after taxation	196,741
- Un-appropriated profit brought forward	246,835

	443,576
APPROPRIATION	
- Interim Dividend @ 10% per share declared in Dec 96	36,750
- Second Interim Dividend @ 12.5% per share declared in June 97	45,938

- Total Dividend for the year	82,688
- Transferred to un-distributed percentage return reserve	6,068

	88,756

- Un-appropriated profit carried forward	354,820
	=====

The Directors have decided to retain Rs. 6,068 thousand representing the balance of percentage return relating to the year ended June 30, 1997. Therefore, the aforesaid amount is being transferred to un-distributed percentage return reserve.

DIRECTORS

During the year under review Lt Gen M Arif Bangash (Retd) and Brig Mushtaq Ali Khan (Retd), representing the interest of Fauji Foundation, Mr M Mubeen Ahsan, Mr Khalid Rahim and Mr Muhammad Jehangir Bashar, representing the interest of Oil & Gas Development Corporation (OGDC) and Mr Munir Ahmed, representing Government of Pakistan resigned from the Company's Board of Directors. These vacancies were filled by Lt Gen Khalid Latif Moghal (Retd) and Brig Muhammad Saeed Baig (Retd), as nominees of Fauji Foundation, Mr. Shahid Akbar, Mr Najam K. Hyder and F. Q. Usmani, as nominees of OGDC and Mr M Tajuddin Khan Sherwani as nominee of Government of Pakistan. I wish to record the Board's appreciation for valuable contributions and services rendered by all the outgoing directors during their tenure. I also extend warm welcome to the incoming directors.

AUDITORS

The present auditors, Messrs A. F. Ferguson & Co, Chartered Accountants, retire and being eligible offer themselves for the re-appointment as Auditors of the Company.

HUMAN RESOURCES

Relations between the Management and the workers continued to be cordial and are expected to remain so in the future.

WELFARE ACTIVITIES

The Company continues to maintain its regular welfare activities for the local community in the vicinity of Marl Gas Field.

PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding in the Company as at June 30, 1997 is attached.

ACKNOWLEDGEMENT

The board of directors, would like to express their appreciation for the efforts and dedication of all officers and staff of the Company which enabled the management to run the Company efficiently during the year. The board also wish to express their appreciation for continued assistance and cooperation received from the local administration at Daharki, various departments of federal government particularly the Ministry of Petroleum and Natural Resources and the Ministry of Finance in respect of matters relating to Company's operations, and cooperation extended by Fauji Foundation and Oil & Gas Development Corporation.

Auditors' Report to the Members

We have audited the annexed balance sheet of Mari Gas Company Limited as at June 30, 1997 and the related profit and loss account and cash flow statement together with the notes forming part thereof, for the year ended June 30, 1997 and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the requirements of Marl Gas Well Head Price Agreement dated December 22, 1985 where its requirements are not consistent with the requirements of the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 and the Agreement referred to in (b) (i) above in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1997 and of the profit and cash flows for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Ferguson & Co.

Islamabad: November 13, 1997

Chartered Accountants

Balance Sheet as at June 30, 1997

	Note	1997 (Rupees in thousand)	1996
SHARE CAPITAL, RESERVES AND SURPLUS			
Authorised capital			
50,000,000 ordinary shares of Rs. 10 each		500,000	500,000
		=====	=====
Issued, subscribed and paid up capital	3	367,500	210,000
General reserve		2,046	2,046
Undistributed percentage return reserve	4	30,992	24,924
Profit and loss account	5	354,820	246,835

		755,358	483,805
ADVANCE AGAINST SUBSCRIPTION OF SHARE CAPITAL		-	285
REDEEMABLE CAPITAL AND ACCRUED MARK-UP		279,552	334,806
LONG TERM LOANS AND DEFERRED LIABILITIES			
Loans - secured		295,547	379,989

Employees' retirement benefits		11,151	828
Deferred credits		8,239	3,343
		-----	-----
		304,901	384,160
CURRENT LIABILITIES			
Current maturity of- redeemable capital and accrued mark-up	6	55,254	47,153
- long term loans	7	84,442	84,442
Accrued and other liabilities	9	1,325,860	510,947
		-----	-----
		1,465,556	642,542
CONTINGENCIES AND COMMITMENTS			
	10	-	-
		-----	-----
		2,805,367	1,845,598
		=====	=====
TANGIBLE FIXED ASSETS			
Operating assets	11	838,613	595,291
Capital work-in-progress	12	128,501	103,477
		-----	-----
		967,114	698,768
LEASING AND EXPLORATION COSTS			
Cost		5,606	5,606
Less: Amortization		2,540	2,279
		-----	-----
		3,066	3,327
LONG TERM DEPOSITS AND PREPAYMENTS			
	13	4,671	2,578
CURRENT ASSETS			
Stores and spares	14	68,883	54,797
Trade debts - unsecured, considered good	15	1,038,915	246,386
Loans, advances and prepayments	16	10,489	8,011
Other receivables	17	98,930	75,020
Taxation		25,977	19,120
Bank and cash balances	18	587,322	737,591
		-----	-----
		1,830,516	1,140,925
		-----	-----
		2,805,367	1,845,598
		=====	=====

The annexed notes form an integral part of these accounts.

:

Profit and Loss Account for the year ended June 30, 1997

	1997	1996
Note	(Rupees in thousand)	

Sales - net	19	584,917	438,508
Less: Royalty		72,488	53,608
		-----	-----
		512,429	384,900
Other operating expenses	20	248,012	259,004
		-----	-----
OPERATING PROFIT		264,417	125,896
Other income	21	109,268	79,473
		-----	-----
		373,685	205,369
		-----	-----
Financial charges	22	143,370	110,912
Other charges	23	11,737	6,535
		-----	-----
		155,107	117,447
		-----	-----
PROFIT BEFORE TAXATION		218,578	87,922
Taxation	24	21,837	12,828
		-----	-----
PROFIT AFTER TAXATION		196,741	75,094
Unappropriated profit brought forward		246,835	223,945
		-----	-----
Profit available for appropriation		443,576	299,039
APPROPRIATIONS/TRANSFERS:			
Dividends - 1st interim @ 10% (1996: 7.5%)		36,750	15,750
- 2nd interim @ 12.5% (1996: 15%)		45,938	31,500
Transferred to undistributed percentage return reserve - note 4.1		6,068	4,954
		-----	-----
		88,756	52,204
		-----	-----
UN-APPROPRIATED PROFIT CARRIED FORWARD		354,820	246,835
		=====	=====

The annexed notes form an integral part of these accounts.

Cash Flow Statement for the year ended June 30, 1997

	Note	1997 (Rupees in thousand)	1996
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	25	275,663	108,679
Financial charges paid		(120,609)	(88,568)
Taxes paid		(28,693)	(35,906)
Long-term loans, advances, deposits and prepayments (net)		(2,093)	(838)
		-----	-----
Net cash inflow/(outflow) from operating activities		124,268	(16,633)

CASH FLOW FROM INVESTING ACTIVITIES

Fixed capital expenditure	(362,755)	(67,258)
Sale proceeds of fixed assets	4,679	2,226
Interest received	100,698	69,733
	-----	-----
Net cash (outflow)/inflow from investing activities	(257,378)	4,701

CASH FLOW FROM FINANCING ACTIVITIES

Long-term loans received	-	259,020
Share capital subscription	15 7,215	285
Redeemable capital and accrued mark-up repayments	(47,153)	(40,240)
Long-term loans repayments	(84,442)	(41,076)
Dividends paid	(42,778)	(47,018)
	-----	-----
Net cash (outflow)/inflow from financing activities	(17,158)	130,971
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(150,268)	119,039
Cash and cash equivalents at the beginning of the year	737,591	618,552
	-----	-----
Cash and cash equivalents at the end of the year	18 587,323	737,591
The annexed notes form an integral part of these accounts.	=====	=====

Notes to the Accounts for the year ended June 30, 1997**1. LEGAL STATUS AND OPERATIONS**

The Company is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are listed at all stock exchanges of Pakistan. The Company is principally engaged in drilling, production and sale of natural gas. The gas price mechanism is governed by Marl Gas Well Head Price Agreement dated December 22, 1985 between The President of Islamic Republic of Pakistan and the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

2.2 Mark-up on Redeemable Capital

Markup on long term finance is allocated to periods during the deferred payment term so as to produce a constant periodic rate of financial cost.

2.3 Employees' Retirement Benefits

The Company operates defined benefit funded pension and gratuity schemes for its management employees. The scheme provides life pension to employees and thereafter to their spouse. Contributions are made annually to these funds on the basis of actuarial recommendations at the rate of 10.07% of basic salary for pension and at the rate of 8.33% of basic salary for gratuity. Based on the latest actuarial valuation as at December 31, 1994 of the schemes, carried out once in every three years, the fair value of the funds' assets and the

liabilities were Rs. 8.076 million and Rs. 13.834 million respectively for pension scheme and Rs. 0.221 million and Rs. 1.286 million representing for the gratuity scheme. The future contribution rates of these schemes include allowances for deficit and surplus.

Entry age normal method, using following significant assumptions, is used for valuation of the above mentioned funded schemes:

- Expected rate of increase in salaries at 12% per annum.

- Expected rate of interest on investment at 12% per annum.

~:

In addition, the Company operates an unfunded pension scheme for its non-management employees. Provisions made in the accounts to cover obligations under the scheme are shown under deferred liabilities.

The Company also operates a defined contribution provident fund for its permanent employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of basic salary.

2.4 Taxation

Provision for taxation is based on taxable income at the current rate of taxation.

Deferred tax is not accounted for as per the terms of "Mari Gas Well Head Price Agreement". Had the Company provided for deferred taxation under liability method, there would have been a liability of Rs. 159 million as at June 30, 1997 (1996: Rs. 102 million).

2.5 Tangible Fixed Assets

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

Depreciation and amortization on fixed assets other than lease and well investment cost is charged to income using straight line method whereas lease and well investment costs are amortized in proportion to the ratio that the off takes for the year bear to balance of developed reserves of Mari Gas Field as estimated at the beginning of that year as applied to written down values in accordance with "Mari Gas Well Head Price Agreement".

The full calendar quarter's depreciation is charged on additions during a calendar quarter, while no depreciation is charged for the calendar quarter during which the asset is disposed.

Gains and losses on disposals are taken into account in current income. Maintenance and normal repairs are charged to income as and when incurred.

2.6 Leasing and Exploration Costs

These are stated at cost to the Company calculated in terms of the Assets Transfer Agreement dated December 22, 1985 less amortization thereon. In accordance with "Mari Gas Well Head Price Agreement" leasing and exploration costs are amortized in proportion to the ratio that the off takes for the year bear to balance of developed reserves of Mari Gas Field as estimated at the beginning of that year as applied to written down values.

2.7 Stores and Spares

These are valued at moving average cost except material in transit which are valued at cost.

2.8 Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date except: !

- i) foreign currency loans where exchange rate is guaranteed; and
- ii) bank balances out of adhoc disbursement of such loans, such liabilities and assets have been translated at guaranteed rates.

Exchange gains and losses are taken into income except on foreign currency loans obtained for Marl Gas Field which are capitalized till the date of substantial completion of a project.

2.9 Revenue Recognition

Sales are recorded on actual delivery of gas or under minimum billing provisions as and when the same becomes applicable under respective agreement with each customer.

1997 1996
(Rupees in thousand)

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

24,850,007 (1996: 9,100,007) Ordinary shares of Rs. 10 each for cash	248,500	91,000
11,899,993 (1996: 11,899,993) Ordinary shares of Rs. 10 each for consideration other than cash	119,000	119,000
	-----	-----
	367,500	210,000
	=====	=====

During the year 15,750,000 (1996: Nil) right shares were issued to the existing shareholders which were fully subscribed and paid for.

4 UNDISTRIBUTED PERCENTAGE RETURN RESERVE

1997 1996
(Rupees in thousand)

4.1 Opening balance	24,924	19,970
Transferred from profit and loss account	6,068	4,954
	-----	-----
	30,992	24,924
	=====	=====

4.2 The amount held in this reserve represents the balance of the percentage return reserve on shareholders' funds as defined in the Mari Gas Well Head Price Agreement.

5. PROFIT AND LOSS ACCOUNT

The amount of Rs. 354.820 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, 1996	Generated during the year ended June 30 1997	Total
	(Rupees in thousand)		
a) Repayment of borrowings	141,125	107,985	249,110
b) Maintenance of debt service ratio	90,234	-	90,234
c) Maintenance of current ratio	15,476	-	15,476
	-----	-----	-----
	246,835	107,985	354,820
	=====	=====	=====
		1997	1996
		(Rupees in thousand)	

6. REDEEMABLE CAPITAL AND ACCRUED MARK UP-SECURED

Long term finance and accrued mark-up during grace period		334,806	381,959
Less: Current maturity shown under current liabilities		55,254	47,153
		-----	-----
		279,552	334,806
		=====	=====

The Company has obtained on mark-up basis a long term finance of Rs. 437.913 million from National Development Finance Corporation (NDFC) for Phase V project. The amount of Rs. 437.913 million represents Purchase Price with a corresponding "Marked-up Price" of Rs. 1,157.230 million. A rebate of Rs. 305.991 million shall be available to the Company if all installments are paid on due dates. The marked-up price is payable in 16 equal half yearly installments commencing from February 01, 1994.

The above finance is secured by:

- i) Equitable mortgage on Company's immovable properties ratably and pari passu with IFC, referred to in note 7.
- ii) Hypothecation on all present and future plant and machinery and current assets.
- iii) Floating charge on all the business, undertaking and goodwill and all other properties and assets both present and future.

The charge created under (ii) and (iii) above rank pari passu with charge created for long term loan from IFC, referred to in note 7.

	1997	1996
	(Rupees in thousand)	

7. LONG TERM LOANS - SECURED

From a financial institution - International Finance Corporation (IFC) US Dollar loan - \$12.88 million (1996: \$15.75 million)		379,989	464,431
Less: Current maturity shown under current liabilities		84,442	84,442

 295,547 379,989
 =====

The Company on February 27, 1992 signed an Investment Agreement with International Finance Corporation (IFC) in respect of Phase V project for US \$ 19.5 million out of which US \$ 12 million disbursed in 1992 is repayable in 16 equal half yearly installments commencing from April 15, 1994 and the balance of US \$ 7.5 million disbursed in 1996 for drilling to a deeper prospect in the Mari field, is repayable in 11 equal half yearly installments commencing from October 15, 1996. The interest is payable quarterly at the rate of 9.4375 percent per annum.

The above loan is secured by:

i) Equitable mortgage on Company's all immovable properties except Mari Gas Mining Leases, ratably and paid passu with NDFC, referred to in note 6.

ii) Floating charge by way of hypothecation on all the Company's other assets (present and future, including future gas production) ranking pari passu with NDFC, referred to in note 6.

The Company has exercised the option given under Foreign Exchange Circular No. 76 of 1984 to transfer the exchange risk to the Government on payment of a fee at the rate of 6.51% per annum.

8. DEFERRED CREDITS

This represents the unadjusted balance of payments received from a customer under-Minimum Billing provision of the Gas Purchase and Sale Agreement. Such unadjusted balances are available to the customer for set off against supplies of gas in excess of the contracted minimum quantities during subsequent periods as stipulated in the said Agreement.

1997 1996
 (Rupees in thousand)

9. ACCRUED AND OTHER LIABILITIES

Interest accrued on secured loan	7,471	9,131
Mark-up accrued on redeemable capital	23,018	26,260
Exchange risk and other charges	104,822	77,159
Excise duty	58,110	49,311
Other accrued liabilities	85,808	24,849
Deposits for material supplied on loan	159	159
Workers' profits participation fund - note 9.1	10,739	-
Workers' welfare fund	6,865	6,644
Development surcharge - note 15.1	941,391	256,179
Retention and earnest money	4,635	3,039
Unclaimed/unpaid dividend	46,685	6,775
Gas price surplus due to The President under the provisions of Maid Gas Well Head Price Agreement	36,157	51,441
	-----	-----
	1,325,860	510,947
	=====	=====

9.1 Workers' profits participation fund

Balance payable/(receivable) at the beginning of the year	(777)	3,103
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Interest on funds utilized in the Company's business	-	110
Allocation for the year	11,516	4,723
Amount paid to the Trustees of the Fund	-	(8,713)
Balance payable/(receivable) at the end of the year	-----	-----
	10,739	(777)
	=====	=====

10. CONTINGENCIES AND COMMITMENTS

10.1 The Price Determining Authority (PDA), Ministry of Petroleum & Natural Resources through letter No. DGO (AC)-S(50)/94-IA dated March 30, 1995 had advised that till further instructions:

(i) the Company should not take any credit for interest income receivable from WAPDA under Gas Purchase and Sale Agreement between the Company and WAPDA on account of delayed payment of Company's gas sales bills for supplies of gas; and

(ii) the Company should also not make any provision in the accounts for the interest payable to Government in terms of Natural Gas (Development Surcharge) Ordinance, 1967 and the Natural Gas (Development Surcharge) Rules, 1967 on account of late deposit of gas development surcharge which has resulted from delayed payment by WAPDA as mentioned above.

PDA through letter No. DGO (AC--5(50)/95 dated October 1, 1996 has now advised that the above referred interest income from WAPDA be taken into account after it is actually received and that interest payable to Government be paid after such receipt.

Accordingly, the Company has not recognized the interest income amounting to Rs. 214.953 million inclusive of Rs. 99.705 million for the year ended June 30, 1997 and also has not made any provision in the accounts for interest expenses amounting to Rs. 39.934 million inclusive of Rs. 19.330 million for the year ended June 30, 1997 payable to the Government on account of late payment of Development Surcharge. However, such non-recognition does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Marl Gas Well Head Price Agreement.

10.2 Other contingent liabilities

(i) Bank guarantees of Rs. 1.825 million (1996: Rs. 1.825 million) given to the President of Pakistan for mining leases.

(ii) Indemnity bonds of Rs. 58.908 million (1996: Rs. 6.928 million) have been given to Collector of Customs against duty concessions on imports of equipment and materials for Phase V project.

(iii) Income tax authorities have added back to income the surplus payable to the President under the Marl Gas Well Head Price Agreement for the assessment years 1994-95 to 1996-97, which matter has been contested in the appeal. However, any taxes so payable will not affect the Company's return to the shareholders under the aforesaid agreement.

10.3 Commitments

Commitments in respect of capital expenditure contracted for as at June 30, 1997 amounted to Rs. 5.963 million (1996: Rs. 56.516 million).

11. OPERATING ASSETS

Particulars	Cost as at July 1, 1996	Additions/ (disposals)	Cost as at June 30, 1997	Accumulated depreation as at July 1, 1996	Depredation charge for the year/ (disposals)	Accumulated depreation as at June 30, 1997	Net book value as at June 30, 1997	Annual rate of depreciation %
(Rupees in thousand)								
Freehold Land	40,248	-	40,248	-	-	-	40,248	
Leasehold Land	5,910	-	5,910	201	81	282	5,628	1-3
Buildings freehold	99,875	13,059	112,934	23,009	5,582	28,591	84,343	5
Buildings leasehold	3,129	26,752	29,881	512	1,003	1,515	28,366	5
Roads and Bridges	26,693	4,317	31,010	12,774	2,102	14,876	16,134	10
Drilling tools and Equipment	21,432	-	21,432	9,763	4,243	14,006	7,426	20
Equipment & General Plant	117,840	26,896 (373)	144,363	59,511	11,528 (330)	70,709	73,654	10
Gathering Lines	387,641	20,563	408,204	221,589	26,241	247,830	160,374	10
Furniture and Fixtures	10,728	4,953 (213)	15,468	5,357	1,127 (159)	6,325	9,143	10
Vehicles - Heavy	39,252	13,551 (1,446)	51,357	30,956	7,801 (217)	38,540	12,817	30
-Light	22,412	4,426 (2,771)	24,067	18,876	2,846 (2,771)	18,951	5,116	20
Drilling Expenditure	452,601	223,213	675,814	300,694	26,539	327,233	348,581	10
Lease and Well Investment	85,541	-	85,541	34,769	3,989	38,758	46,783	Refer note2.5
1997	1,313,302	337,730 (4,803)	1,646,229	718,011	93,082 (3,477)	807,616	838,613	
1996	1,273,625	43,825 (4,148)	1,313,302	608,270	111,882 (2,141)	718,011	595,291	

11.1 Details of assets disposed off during the year

Description	Cost	Accumulated depreation	Net Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in thousand)						
Equipment	79	67	12	44	Tender	M/s Japan Auction, Islamabad.
	61	49	12	22	-do-	Mr. M. Qasim

					F.B. Area, Karachi.
	20	9	11	6	As per Mr. Abdul Wahab Company Ex-Executive policy Karachi.
	-----	-----	-----	-----	
	160	125	35	72	
Furniture	188	138	50	114	Tender M/s Japan Auction, Islamabad.
Vehicle	1,446	217	1,229	1,443	Insurance Insurance Adamjee Claim Company Karachi.
Miscellaneous	3,009	2,997	12	3,050	- Items having book value upto Rs. 5,000
	-----	-----	-----	-----	
1997	4,803	3,477	1,326	4,679	
	=====	=====	=====	=====	
1996	4,148	2,141	2,007	2,226	
	=====	=====	=====	=====	

1997 1996
(Rupees in thousand)

12. CAPITAL WORK-IN-PROGRESS

Phase-V Project

Land	14,701	12,180
Building	109	-
Plant, machinery and others	91,420	48,813
Drilling expenditure	9,641	10,327
	-----	-----
	115,871	71,320

Support of Production

Land	759	759
Building, roads and bridges	11,612	23,092
Plant, machinery and others	259	8,306
	-----	-----
	12,630	32,157
	-----	-----
	128,501	103,477
	=====	=====

**13. LONG TERM LOANS, ADVANCES, DEPOSITS
AND PREPAYMENTS**

Loans and advances - considered good

- Executives	4,076	1,629
--------------	-------	-------

- Other employees	2,479	1,662
	-----	-----
	6,555	3,291
Less: Recoverable within one year - note 16		
- Executives	1,573	749
- Other employees	1,016	615
	-----	-----
	2,589	1,364
	-----	-----
	3,966	1,927
Deposits	641	325
Prepayments	64	326
	-----	-----
	4,671	2,578
	=====	=====

13.1 The above loans and advances comprise:

Outstanding for periods exceeding three years	--	36
	3,966	1,891
	-----	-----
	3,966	1,927
	=====	=====

13.2 The loans and advances given to executives and employees represent transport loans and other advances repayable in 36 to 60 equal monthly installments.

1997 1996
(Rupees in thousand)

14. STORES AND SPARES

Stores	38,255	29,306
Spares	30,628	25,491
	-----	-----
	68,883	54,797
	=====	=====

15. TRADE DEBTS - Unsecured, considered good

15.1 Trade debts include Rs. 881.686 million receivable from WAPDA which substantially represents development surcharge. The Company also has outstanding liability on account of development surcharge which will be met as and when such amounts are received from WAPDA.

15.2 The amount due from an associated undertaking as at June 30, 1997 was Rs. 63.836 million (1996: Rs. 62.457 million). The maximum amount outstanding at the end of any month during the year was Rs. 98.582 million (1996: Rs. 65.610 million).

1997 1996
(Rupees in thousand)

16. LOANS, ADVANCES AND PREPAYMENTS

Loans and advances - note 13

- Executives	1,573	749
--------------	-------	-----

- Other employees	1,016	615
	-----	-----
	2,589	1,364
Short term prepayments	5,451	5,509
Advances to suppliers and others	2,449	1,138
	-----	-----
	10,489	8,011
	=====	=====

The maximum amount due from executives at the end of any month during the year was Rs. 4.099 million (1996: Rs. 1.629 million).

	1997	1996
	(Rupees in thousand)	
17. OTHER RECEIVABLES		
Profit/interest on bank deposits	13,930	11,806
Octroi refundable	26	2,308
Exchange difference receivable from State Bank of Pakistan	79,202	40,204
Receivable from custom authorities	745	645
Royalty receivable	619	17,207
Others	4,408	2,073
Workers' profit participation fund - note 9.1	-	777
	-----	-----
	98,930	75,020
	=====	=====

	1997	1996
	(Rupees in thousand)	
18. BANK AND CASH BALANCES		
Balances with banks		
Deposit accounts		
- local currency	401,476	403,433
- foreign currency	148,849	318,398
	-----	-----
	550,325	721,831
Current accounts		
local currency	18,531	13,678
foreign currency	18,414	1,945
	-----	-----
	36,945	15,623
Cash in hand	52	18
Balances in transit	-	119
	-----	-----
	587,322	737,591
	=====	=====

19. SALES (including internal consumption)

Gas sale to customers	5,133,676	3,960,454
-----------------------	-----------	-----------

Less: Excise duty	766,673	646,771
Development surcharge	3,746,387	2,824,062
	-----	-----
	4,513,060	3,470,833
	-----	-----
	620,616	489,621
	-----	-----
Internal consumption of gas	934	757
Less: Excise Duty	476	429
	-----	-----
	458	328
	-----	-----
	621,074	489,949
Less: Adjustment representing surplus payable to the President under the provisions of the Marl Gas Well Head Price Agreement	36,157	51,441
	-----	-----
	584,917	438,508
	=====	=====

1997 1996
(Rupees in thousand)

20. OTHER OPERATING EXPENSES

Salaries, wages and benefits	60,496	51,330
Contribution to - provident fund	1,536	1,459
- gratuity fund	970	768
- pension fund	1,146	1,106
Provision for unfunded pension scheme	275	238
Rent, rates and taxes	2,240	2,457
Legal and professional services	464	578
Fuel, light, power and water	7,741	6,400
Maintenance and repairs	14,848	8,797
Insurance	4,274	3,645
Depreciation and amortization	93,343	112,139
Security and other services	15,499	15,338
Travelling	2,807	4,559
Communications	6,177	4,147
Office supplies	6,178	3,605
Auditors' remuneration - note 20.1	429	406
Stores and spares consumed	16,195	6,523
Donations - note 20.2	433	285
Mobile Dispensary	2,105	1,664
Reservoir study	-	4,344
Seismic survey	-	18,088
Compression study	1,354	5,947
Miscellaneous	9,502	5,181
	-----	-----
	248,012	259,004
	=====	=====

20.1 Auditors' Remuneration

Audit fee	125	100
Tax and advisory services, audit of funds and special reports	279	271
Out of pocket expenses	25	23
Excise duty	-	12
	-----	-----
	429	406
	=====	=====

20.2 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

1997 1996
(Rupees in thousand)

21. OTHER INCOME

Profit/interest on bank deposits	102,821	75,044
Profit on disposal of fixed assets	3,353	219
Liquidated damages from a customer	1,446	3,170
Miscellaneous	1,648	1,040
	-----	-----
	109,268	79,473
	=====	=====

1997 1996
(Rupees in thousand)

22. FINANCIAL CHARGES

Interest on - long term loans	48,121	22,925
- workers' profits participation fund	-	110
Mark-up on redeemable capital	57,914	65,302
Exchange risk and commitment fee	3 6,412	21,353
Other charges	923	1,222
	-----	-----
	143,370	110,912
	=====	=====

23. OTHER CHARGES

Workers' profits participation fund	11,516	4,723
Workers' welfare fund	221	1,812
	-----	-----
	11,737	6,535
	=====	=====

24. TAXATION

Current year	21,837	31,962
Prior year	-	(19,134)
	-----	-----
	21,837	12,828
	=====	=====

25. CASH GENERATED FROM OPERATIONS

Profit before taxation	218,578	87,922
------------------------	---------	--------

Adjustment for non cash charges and other items:		
Depreciation and amortization	93,343	112,139
Profit on disposal of fixed assets	(3,353)	(219)
Employees' retirement benefits	287	238
Deferred credits	4,896	3,343
Interest income	(102,821)	(75,044)
Financial charges	143,370	110,912
 Working capital changes - note 25.1	 (78,637)	 (130,612)
	-----	-----
	275,663	108,679
	=====	=====

25.1 Working capital changes

Decrease/(Increase) in current assets		
Stores and spares	(14,086)	(4,172)
Trade debts	(792,529)	244,606
Loans, advances and prepayments	(2,478)	949
Other receivables (net)	(21,786)	(29,164)
	-----	-----
	(830,879)	212,219
 (Decrease)/Increase in current liabilities		
Accrued and other liabilities (net)	752,242	(342,831)
	-----	-----
	(78,637)	(130,612)
	=====	=====

26. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in these accounts for the remuneration of Chief Executive, Director and Executives of the Company were as follows:

	1997		1996			
	Directors		Directors			
	Chief Executive	Other	Executives	Chief Executive	Other	Executives
	(Rupees in thousand)					
Managerial remuneration	517	567	13,141	647	514	9,884
Company's contribution to provident fund	52	-	1,149	37	-	926
Housing and utilities	458	338	8,683	599	291	4,536
Leave passage and others	123	170	5,869	105	128	3,727
	-----	-----	-----	-----	-----	-----
	1,150	1,075	28,842	1,388	933	19,073
	=====	=====	=====	=====	=====	=====
 Number of persons, including those who worked part of the year						
	1	1	65	1	1	50
	=====	=====	=====	=====	=====	=====

The above were provided with medical facilities and are eligible for retirement benefits for which

Company makes contributions based on actuarial calculations to pension and gratuity funds. The chief executive, director and certain executives were provided with free use of car and household items and at field site, Daharki, executives were also provided housing facilities as per Company policy.

In addition, aggregate amount charged in the accounts for fee to twelve directors was Rs. 27 thousand (1996: Rs. 23 thousand).

27. CAPACITY AND ACTUAL PRODUCTION

Considering the nature of the Company's business, information regarding capacity has no relevance. Tim actual production for the year ended June 30, 1997 was 136 BSCF (1996:133 BSCF).

28. TRANSACTIONS WITH ASSOCIATED UNDERTAKING

Sales to an associated undertaking inclusive of government levies for the year ended June 30, 1997 amounted to Rs. 1,573.616 million (1996: Rs. 1,252.808 million).

29. COMPARATIVE FIGURES

Previous year's figures have been re-classified, where necessary for the purpose of comparison.

Pattern of Shareholding as at June 30, 1997

No. of Shareholders	Shareholding		Total shares
			Held
220	1	100	18,081
1,338	101	500	409,600
1,491	501	1,000	887,575
481	1,001	5,000	1,161,075
103	5,001	10,000	770,475
49	10,001	ABOVE	33,503,194
-----			-----
3,682			36,750,000
=====			=====

Categories of Shareholders as at June 30, 1997

Categories of Shareholders	Number	Shares held	Percentage
Individuals	3,661	3,831,856	10.43
investment Companies	7	320,025	0.87
Insurance Companies	3	110,050	0.30
Financial Institutions	4	3,025,900	8.23
Modaraba Companies	4	62,175	0.17
Committee of Administration			
Fauji Foundation	1	14,699,994	40.00
Government of Pakistan	1	7,350,000	20.00
Oil & Gas Development Corporation	1	7,350,000	20.00
	-----	-----	-----
	3,682	36,750,000	100.00
	=====	=====	=====

Ten years at a glance

(Rupees in million)

	1996-97	1995-96	June 1995 (six months)*	1994	1993	1992	1991	1990	1989	1988
FINANCIAL										
Revenue	5,098.45	3,909.77	1,936.40	3,489.26	2,634.36	1,447.70	1,258.53	1,127.47	1,041.75	1,054.12
Govt. Levies Tax, Workers' funds, royalty, excise duty and surcharge on gas	4,619.60	3,544.23	1,727.77	3,077.48	2,403.93	1,260.71	1,069.94	967.68	854.62	879.38
Net profit after taxation	196.74	75.09	57.43	120.43	49.16	5,059	5,321	66.72	72.78	56.03
Dividend	82.69	47.25	15.75	4,725	47.25	4,725	47.25	47.25	47.25	47.25
Issued & paid-up capital	367.50	210.00	210.00	210.00	210.00	210.00	210.00	210.00	210.00	210.00
NATURAL GAS										
Development & Production Leases (SQ MILES)	363.98	363.98	363.98	363.98	363.98	363.98	363.98	363.98	339.32	339.32
Ultimate recovery of proved reserves (BSCF)	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300	3,355
Cumulative Production (BSCF)	1,763	1,627	1,494	1,422	1,282	1,152	1,048	949	845	741
No. of Producing Wells	62	59	59	59	59	47	47	47	47	47
Production (BSCF) - Daily Average	136	133	72	140	130	104	99	104	104	104
(BSCF)	0.373	0.36	0.40	0.38	0.36	0.28	0.27	0.28	0.28	0.28

*Since accounting year had been changed from calendar year to fiscal year in 1995, the figures reflect for six months from January 01 to June 30, 1995.