

Mari Gas Company Limited

Annual Report 1998

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Company Information

Legal Advisors

Orr Dignam & Company
Khan & Piracha

Auditors

A.F. Ferguson & Company
Chartered Accountants

Bankers

ABN AMRO Bank N.V.
Allied Bank of Pakistan Limited
Askari Commercial Bank Limited
Bank of America
Citibank N.A.
Habib Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan
United 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. Iltifat Rasul Khan

Director Finance

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

Brig Muhammad Akram Ali Khan (Retd)

Director Sugar

Fauji Foundation

Director

Mr. Abdus Sattar

Financial Advisor P&NR

Governor of Pakistan

Director

Mr. Abdul Rahman

Businessman

Director

Mr. F.Q. Usmani

Acting Chairman

OGDCL

Director

Mr. Shahid Ahmad

Director General (PC)

Government of Pakistan

Mr. Nasim Beg

Deputy Chief Executive

NIT

Director

Mr. Najam K. Hyder

General Manager

Joint Venture/Production

OGDCL

Director

Mr. Munir Ahmad

Director General (Gas)

Government of Pakistan

Company Secretary

Mr. Khurram Khan

Financial Highlights

1997-98

1996-97

Revenue	Rs. Million	5,446.36	5,098.45
Government levies	Rs. Million	4,928.25	4,619.60
Profit before tax	Rs. Million	163.10	218.58
Profit after tax	Rs. Million	153.49	196.74
Dividend per share	Rs.	2.25	2.25
Tangible fixed assets (Gross)	Rs. Million	1,956.48	1,774.73
Number of shares issued and subscribed	Million	36.75	36.75

Notice of Annual General Meeting

Notice is hereby given that the Fourteenth Annual General Meeting of the Shareholders of Mari Gas Company Limited will be held on Wednesday, December 23, 1998 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, 1998, together with the Directors' and Auditors' Reports thereon.
2. To appoint Auditors for the year 1998-99 and fix their remuneration.

By order of the Board

KHURRAM KHAN

Islamabad, December 02, 1998

Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from December 17, 1998 to December 23, 1998 (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.

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, 1998.

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, 1998 was 136,776.819 million standard cubic feet (MMSCF) as against 135,859.808 (MMSCF) during the corresponding period of 1996-97. The daily average gas production for the year was 374.731 MMSCF as compared to 372.218 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 arid equipment was carried out and reservoir monitoring was conducted throughout the year for preventing any breakdowns and controlling water conning problem in wells.

FUTURE CHALLENGES

With the successful drilling of the second deep well, the Company has discovered a decent size of gas reservoir in Goru B sands of the deeper horizon. The gas discovered is estimated to have probable reserves of 2 Trillion Cubic Feet (TCF) and proven reserves of 0.65 TCF of combustible gas. This of course, is in addition to the existing shallow Habib Rahi recoverable reserves of 4.7 TCF of gas.

With the discovery of gas in, the deeper horizon, the Company has finalized the arrangements to conduct a 440 line kilometer 2D seismic survey as a prelude to the development of Goru B reservoir. Based on the interpretation of the acquired seismic data and the appraisal of reservoir, further development of the field will be undertaken accordingly.

FINANCIAL RESULTS

Rs. '000

The profit and appropriations for the year are as follows:

PROFIT

- Profit for the year under review after taxation	153,494
- Unappropriated profit brought forward	354,820

	508,314

APPROPRIATION

- Dividend @ 22.5% in May 1998	82,689
- Transferred to Undistributed Percentage Return Reserve	6,432

	89,121

- Unappropriated profit carried forward	419,193
	=====

The Directors have decided to retain Rs.6,432 thousand representing the balance of percentage return relating to the year ended June 30, 1998. Therefore, the aforesaid amount is being transferred to "Undistributed Percentage Return Reserve". Reduction in profit after taxation is mainly due to high depreciation cost of fixed assets and decrease in, interest income due to reduced bank deposits on account of non-payment of dues by WAPDA. However, above variances do not affect the return to the Shareholders.

DIRECTORS

The following persons were elected as directors for a three-year term, under the provisions of the Companies Ordinance, 1984, at the Extraordinary General Meeting held on June 24, 1998:

1. Lt Gen Khalid Latif Moghal (Retd)
2. Lt Gen Ghulam Muhammad Malik (Retd)
3. Mr. Iltifat Rasul Khan
4. Brig Sayyed Ifzal Hussain (Retd)
5. Brig Riaz Ahmed Qureshi (Retd)
6. Brig Muhammad Saeed Baig (Retd)
7. Mr. Abdul Rahman
8. Mr. Nasim Beg (Nominee of NIT)

Brig Muhammad Akram Ali Khan (Retd) was appointed as member of the Board with effect from September 01, 1998 in place of Brig Sayyed Ifzal Hussain (Retd) who resigned from the directorship. Mr. Abdul Waheed, businessman, retired as a director on June 24, 1998.

The three each nominee directors of the Government of Pakistan and Oil & Gas Development Company Limited, not being subject to election, continued to be the members of the Board. Mr. Tajuddin Khan Sherwani and Mr. Shahid Akbar resigned from the directorship with effect from April 13, 1998. These vacancies were filled by Mr. Munir Ahmad as nominee of Government of Pakistan and Mr. Usman Aminuddin as nominee of Oil & Gas Development Company Limited. Mr. Hilal A. Raza was appointed as a nominee director in place of Mr. Usman Aminuddin on September 17, 1998. However, nomination of Mr. Hilal A. Raza was also

withdrawn by OGDCL. Nomination of third director of OGDCL is still awaited.

I wish to record the Board's appreciation for the 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.E Ferguson & Company, Chartered Accountants, retire and being eligible offer themselves for 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 Mari Gas Field.

YEAR 2000 COMPLIANCE OF COMPUTER SYSTEMS

The Company is fully aware of the issue of "Millennium Bug" and is taking appropriate steps, including upgrading the computer system, to overcome this problem.

The major customers of the Company include WAPDA, Engro Chemical Pakistan Limited, Fauji Fertilizer Company Limited and Pak Saudi Fertilizers Limited. The Company is dealing with the banks, both local and foreign, in the normal course of business.

PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding in the Company as at June 30, 1998 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 Company Ltd.

For and on behalf of the Board

Lt Gen Khalid Latif Moghal (Retd)
Chairman

Auditors' Report to the Members

We have audited the annexed balance sheet of Mari Gas Company Limited as at June 30, 1998 and the related profit and loss account and cash flow statement together with the notes forming part thereof, for the year ended June 30, 1998 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 Mari 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, 1998 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.

Islamabad
November 16, 1998.

A. F. Ferguson & Co.
Chartered Accountants

Balance Sheet as at June 30, 1998

	Note	1998 (Rupees in thousand)	1997
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	367,500
General reserve		2,046	2,046
Undistributed percentage return reserve	4	37,424	30,992
Profit and loss account	5	419,193	354,820
		-----	-----
		826,163	755,358
REDEEMABLE CAPITAL AND ACCRUED MARK-UP	6	214,805	279,552
LONG TERM LOANS AND DEFERRED LIABILITIES			
Loans - secured	7	206,472	295,547
Employees' retirement benefits		1,381	1,115
Deferred credits	8	26,835	8,239
		-----	-----
		234,688	304,901
CURRENT LIABILITIES			
Current maturity of - redeemable capital and - accrued mark-up	6	64,747	55,254
- long term loans	7	82,588	84,442
Accrued and other liabilities	9	2,795,157	1,325,860
		-----	-----
		2,942,492	1,465,556
		-----	-----
CONTINGENCIES AND COMMITMENTS	10	-	-
		-----	-----
		4,218,148	2,805,367

		=====	=====
TANGIBLE FIXED ASSETS			
Operating assets	11	955,469	838,613
Capital work-in-progress	12	75,308	128,501
		-----	-----
		1,030,777	967,114
 LEASING AND EXPLORATION COSTS			
Cost		5,606	5,606
Less: Amortization		2,803	2,540
		-----	-----
		2,803	3,066
 LONG-TERM LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS	13	4,842	4,671
 CURRENT ASSETS			
Stores and spares	14	67,465	68,883
Trade debts - unsecured, considered good	15	2,576,662	1,038,915
Loans, advances and prepayments	16	13,375	10,489
Other receivables	17	142,739	98,930
Taxation		85,998	25,977
Bank and cash balances	18	293,487	587,322
		-----	-----
		3,179,726	1,830,516
		-----	-----
		4,218,148	2,805,367
		=====	=====

The annexed notes form an integral part of these accounts.

Lt Gen Ghulam Muhammad Malik (Retd)
Chief Executive

Abdus Sattar
Director

Profit and Loss Account for the year ended June 30, 1998

	Note	1998	1997
		(Rupees in thousand)	
Sales - net	19	612,454	584,917
Less: Royalty		75,541	72,488
		-----	-----
Other operating expenses	20	536,913	512,429
		320,476	248,012
		-----	-----
Operating profit		216,437	264,417
Other income	21	70,765	109,268
		-----	-----
		287,202	373,685
		-----	-----
Financial charges	22	114,895	143,370
Other charges	23	9,209	11,737
		-----	-----
		124,104	155,107
		-----	-----
Profit before taxation		163,098	218,578
Taxation		9,604	21,837
		-----	-----

Profit after taxation	153,494	196,741
Unappropriated profit brought forward	354,820	246,835
	-----	-----
Profit available for appropriation	508,314	443,576
Appropriations/transfers:		
Dividends - Ist Interim @ 22.5% (1997: 10.0%)	82,689	36,750
- 2nd Interim Nil (1997: 12.5%)	-	45,938
Transferred to undistributed percentage return reserve - note 4.1	6,432	6,068
	-----	-----
	89,121	88,756
	-----	-----
Un-appropriated profit carried forward	419,193	354,820
	=====	=====

The annexed notes form an integral part of these accounts.

Lt Gen Ghulam Muhammad Malik (Retd)
Chief Executive

Abdus Sattar
Director

Cash Flow Statement for the year ended June 30, 1998

	Note	1998	1997
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	24	365,344	275,663
Financial charges paid		(221,187)	(120,609)
Taxes paid		(69,626)	(28,694)
Long-term loans, advances, deposits and prepayments (net)		(171)	(2,093)
		-----	-----
Net cash inflow/(outflow) from operating activities		74,360	124,267
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(184,893)	(362,755)
Sale proceeds of fixed assets		1,440	4,679
Interest received		66,049	100,698
		-----	-----
Net cash (outflow)/inflow from investing activities		(117,404)	(257,378)
CASH FLOW FROM FINANCING ACTIVITIES			
Share capital subscription		-	157,215
Redeemable capital and accrued mark-up repayments		(55,254)	(47,153)
Long-term loans		(82,588)	(84,442)
Dividends paid		(112,949)	(42,778)
		-----	-----
Net cash (outflow)/inflow from financing activities		(250,791)	(17,158)
		-----	-----
Net (decrease)/increase in cash and cash equivalents		(293,835)	(150,269)
Cash and cash equivalents at the beginning of the year		587,322	737,591
		-----	-----
Cash and cash equivalents at the end of the year	18	293,487	587,322
		=====	=====

The annexed notes form an integral part of these accounts.

Lt Gen Ghulam Muhammad Malik (Retd)

Chief Executive

Abdus Sattar

Director

Notes to the Accounts for the year ended June 30, 1998

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 Mari 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

Mark-up 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 Employee's 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, 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.

Entry Age Normal method, using followings 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. 195 million as at June 30, 1998 (1997: Rs. 159 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 offtakes 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 offtakes 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 Mari 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.

	1998	1997
	(Rupees in thousand)	

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

24,850,007 (1997: 24,850,007) Ordinary shares of Rs. 10 each for cash	248,500	248,500
11,899,993 (1997:11,899,993) Ordinary shares of Rs. 10 each for consideration other than cash	119,000	119,000
	-----	-----
	367,500	367,500
	=====	=====

4. UNDISTRIBUTED PERCENTAGE RETURN RESERVE

4.1 Opening balance	30,992	24,924
Transferred from profit and loss account	6,432	6,068
	-----	-----
	37,424	30,992
	=====	=====

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. 419.193 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, 1997	Generated during the year ended June 30, 1998	Total
(Rupees in thousand)			
a) Repayment of borrowings	249,110	64,373	313,483
b) Maintenance of debt service ratio	90,234	-	90,234
c) Maintenance of current ratio	15,476	-	15,476
	-----	-----	-----
	354,820	64,373	419,193
	=====	=====	=====
		1998	1997
		(Rupees in thousand)	

6. REDEMABLE CAPITAL AND ACCRUED**MARK UP- SECURED**

Long term finance and accrued mark-up during grace period	279,552	334,806
Less: Current maturity shown under current liabilities	64,747	55,254
	-----	-----
	214,805	279,552
	=====	=====

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.

1998 1997
(Rupees in thousand)

7. LONG TERM LOANS - SECURED

From a Financial Institution-
International Finance Corporation (IFC)

US Dollar loan - \$10.02 million (1997:\$12.88 million)	289,060	379,989
Less: Current maturity shown under current liabilities	82,588	84,442
	-----	-----
	206,472	295,547
	=====	=====

The Company on February 27, 1992 signified 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 \$7.5million 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.

i) Equitable mortgage on Company's all immovable properties except Mari Gas Mining Leases, ratably and pari 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 customers under Minimum Billing provision of the Gas Purchase and Sale Agreements. Such unadjusted balances are available to the customers for set off against supplies of gas in excess of the contracted minimum quantities during subsequent periods as stipulated in the said Agreements.

	1998	1997
	(Rupees in thousand)	

9. ACCRUED AND OTHER LIABILITIES

Interest accrued on secured loan	5,683	7,471
Mark-up accrued on redeemable capital	19,219	23,018
Exchange risk and other charges	4,117	104,822
Excise duty	77,575	58,110
Other accrued liabilities	30,383	85,808
Deposits for material supplied on loan	159	159
Workers' profits participation fund - note 9.1	8,653	10,739
Workers' welfare fund	7,459	6,865
Development surcharge - note 15.1	2,543,247	941,391
Retention and earnest money	3,616	4,635
Unclaimed/unpaid dividend	16,424	46,685
Gas price surplus due to The President under the provisions of Mari Gas Well Head Price Agreement	78,622	36,157
	-----	-----
	2,795,157	1,325,860
	=====	=====

9.1 Workers' profits participation fund

Balance payable/(receivable) at the beginning of the year	10,739	(777)
--	--------	-------

Allocation for the year	8,615	11,516
Interest on delayed payment	38	-
Amount paid to the Trustees of the Fund	(10,739)	-
Balance payable at the end of the year	----- 8,653 =====	----- 10,739 =====

10. CONTINGENCIES AND COMMITMENTS

10.1 The Price Determining Authority (PDA), Ministry of Petroleum & Natural Resources through letter No. DGO(AC)-5(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 since 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 interest income of Rs. 683.803 million (inclusive of Rs. 468.850 million for the year ended June 30, 1998) on amount due from WAPDA and has also not made any provision in the accounts for interest expense of Rs, 270.951 million (inclusive of Rs. 231.016 million for the year ended June 30, 1998) payable to the Government on account of late payment of Development Surcharge. However, such non-recognition does not affect the current year's or future years' profit after taxation which includes the return available to shareholders under the Mari Gas Well Head Price Agreement.

10.2 Other contingent liabilities

(i) Bank guarantees of Rs. 1.825 million (1997: Rs. 1.825 million) given to The President of Pakistan for mining leases.

(ii) Indemnity bonds of Rs. 65.510 million (1997: Rs. 58.908 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 raised tax demands by considering as income the surplus payable to the President under the Mari Gas Well Head Price Agreement for the assessment years 1994-95 to 1996-97. This matter has been contested in the appeal. The CIT (Appeals) has set aside the cases for reconsideration. Subsequently, the tax department has filed an appeal with the Income Tax Tribunal against the decision of CIT (Appeals). No provision has been made against the tax demands raised since 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, 1998 amounted to Rs. 8.553 million (1997: Rs. 5.963 million).

11. OPERATING ASSETS

	Cost as at July 1, 1997	Additions/ (disposals)	Cost as at June 30, 1998	Accumulated depreciation as at July 1, 1997	Depreciation charge for the year/ (disposals)	Accumulated depreciation as at June 30, 1998	Net book value as at June 30, 1998	Annual rate of depreciation %
(Rupees in thousand)								
Freehold land	40,248	-	40,248	-	-	-	40,248	-
Leasehold land	5,910	-	5,910	282	81	363	5,547	1-3
Buildings freehold	112,934	13,509	126,443	28,591	5,955	34,546	91,897	5
Buildings leasehold	29,881	15,059	44,940	1.52	1,915	3.43	41,510	5
Roads and bridges	31,010	1,000	32,010	14,876	2,449	17,325	14,685	10
Drilling tools and equipment	21,432	-	21,432	14,006	4,243	18,249	3,183	20
Equipment and general plant	144,363	13,477 (1,443)	156,397	70,709	12,979 (1,024)	82,664	73,733	10
Gathering lines	408,204	-	408,204	247,830	25,853	273,683	134,521	10
Furniture and fixtures	15,468	3,061 (286)	18,243	6,325	1,358 (235)	7,448	10,795	10
Vehicles- Heavy	51,357	4,108 (619)	54,846	38,540	5,698 (619)	43,619	11,227	30
- Light	24,067	1,487 (795)	24,759	18,951	1,773 (795)	19,929	4,830	20
Drilling expenditure	675,814	186,385	862,199	327,233	54,438	381,671	480,528	10
Lease and well investment	85,541	-	85,541	38,758	4,018	42,776	42,765	Refer note 2.5
1998	1,646,229	238,086 (3,143)	1,881,172	807,616	120,760 (2,673)	925,703	955,469	
1997	1,313,302	337,730 (4,803)	1,646,229	718,011	93,082 (3,477)	807,616	838,613	

11.1 Details of assets disposed off during the year

Description	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Mode of disposal	Sold to
Equipment	20	15	5	6	Tender	M/s Karachi Typewriter Company, Burns Road, Karachi
	35	22	13	12	-do-	Mr. Kassim H. Ansari, Karachi
	196	184	12	5.50	-do-	Mr. Tariq Siddiqui, North Nazimabad, Karachi
	431	356	75	52	-do-	Mr. Jawaid Iqbal, North Nazimabad, Karachi
	18	10	8	15	-do-	Mr. M. Ayub Near Ali Ali School, North Karachi

	311	215	96	30	-do-	M/s. Iqbal Soomro & Bros. Nishtar Road, Karachi
	210	135	75	55	-do-	Mr. M. Shamim, Ghani Mills, SITE, Karachi
	35	25	10	12	-do-	Mr. S. Saeed H. Ansari North Nazimabad, Karachi
	24	3	21	12	As per Company policy	Mr. Haji Khan Baloch Ex-Executive Islamabad
	90	20	70	47	As per Company policy	Mr. Moiz Ahmad Ex-Executive Islamabad
	26	13	13	23	As per Company policy	Mr. Abdul Rahman Ex-Executive Islamabad
	25	5	20	6	As per Company policy	Mr. Tariq Kitchlew Ex-Executive Islamabad
	----- 1,421	----- 1,003	----- 418	----- 325		
	=====	=====	=====	=====		
Furniture						
	18	11	7	7	Tender	M/s. Ibrahim Timber, Ghas Mandi, Karachi
	114	95	19	34	-do-	Mr. Himmat Khan, Al-Karam Textile Mills, Karachi
	35	28	7	36	-do-	Mr. Shahid Siddiqui Karachi
	22	15	7	21	-do-	Mr. M. Ayub, Near Ali Ali School, North Karachi
	189	149	40	98		
	-----	-----	-----	-----		
Miscellaneous	1,533	1,521	12	1,017	-	Items having book value upto Rs. 5,000
	-----	-----	-----	-----		
1998	3,143	2,673	470	1,440		
	=====	=====	=====	=====		
1997	4,803	3,477	1,326	4,679		
	=====	=====	=====	=====		

1998 1997
(Rupees in thousand)

12. CAPITAL WORK-IN-PROGRESS

Phase-V Project

Land	17,011	14,701
Building	1,708	109
Plant, machinery and others	47,213	91,420
Drilling expenditure	-	9,641
	-----	-----
	65,932	115,871

Support of Production

Land	1,800	759
Building, roads and bridges	2,656	11,612
Plant, machinery and others	4,920	259

-----	-----
9,376	12,630
-----	-----
75,308	128,501
=====	=====

13. LONG TERM LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

Loans and advances - considered good		
- Executives	4,712	4,076
- Other employees	2,491	2,479
	-----	-----
	7,203	6,555
Less: Recoverable within one year - note 16		
- Executives	2,169	1,573
- Other employees	911	1,016
	-----	-----
	3,080	2,589
	-----	-----
	4,123	3,966
Deposits	657	641
Prepayments	62	64
	-----	-----
	4,842	4,671
	=====	=====

13.1 The above did not include any amount outstanding for periods exceeding three years (1997: Nil).

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.

1998 1997
(Rupees in thousand)

14. STORES AND SPARES

Stores	36,269	38,255
Spares	31,196	30,628
	-----	-----
	67,465	68,883
	=====	=====

15. TRADE DEBTS - Unsecured, considered good

15.1 Trade debts include Rs. 2,410.353 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, 1998 was Rs. 72.329 million (1997: Rs. 63.836 million). The maximum amount outstanding at the end of any month during the year was Rs. 94.835 million (1997: Rs. 98.582 million).

1998 1997
(Rupees in thousand)

16. LOANS, ADVANCES AND PREPAYMENTS

Loans and advances - note 13

- Executives	2,169	1,573
- Other employees	911	1,016
	-----	-----
	3,080	2,589
Short term prepayments	5,864	5,451
Advances to suppliers and others	4,431	2,449
	-----	-----
	13,375	10,489
	=====	=====

The maximum amount due from executives at the end of any month during the year was Rs. 5.248 million (1997: Rs. 4,099 million).

1998 **1997**
(Rupees in thousand)

17. OTHER RECEIVABLES

Profit/interest on bank deposits		
Octroi refundable	14,091	13,930
	764	26
Exchange difference receivable from State Bank of Pakistan	120,908	79,202
Receivable from custom authorities	757	745
Royalty receivable	5,410	619
Others	809	4,408
	-----	-----
	142,739	98,930
	=====	=====

18. BANK AND CASH BALANCES

Balances with banks		
Deposit accounts		
- local currency	219,107	401,476
- foreign currency	60,593	148,849
	-----	-----
	279,700	550,325
	=====	=====
Current accounts		
- local currency	11,514	18,531
- foreign currency	2,221	18,414
	-----	-----
	13,735	36,945
Cash in hand	52	52
	-----	-----
	293,487	587,322
	=====	=====

19. SALES (Including internal consumption)

Gas sale to customers	5,523,988	5,133,676
Less: Excise duty	813,455	766,673
	4,019,965	3,746,387
Development surcharge	-----	-----
	4,833,420	4,513,060
	-----	-----
	690,568	620,616

Internal consumption of gas	985	934
Less: Excise duty	477	476
	-----	-----
	508	458
	-----	-----
	691,076	621,074
Less: Adjustment		
The President under the provisions of the		
Mari Gas Well Head Price Agreement-note 19.1	78,622	36,157
	-----	-----
	612,454	584,917
	=====	=====

19.1 As explained in note 15.1 to the accounts, the liability on account of gas development surcharge related to WAPDA will be paid to the Government as and when related amounts are received from WAPDA. Accordingly, Rs. 2,165.670 million (1997: Rs. 824.417 million) receivable from WAPDA on this account and corresponding amount payable to the Government have not been taken into account for the purpose of calculation of current ratio and consequential adjustment under provisions of clause 2.1 (c) of the Mari Gas Well Head Price Agreement.

1998 1997
(Rupees in thousand)

20. OTHER OPERATING EXPENSES

Salaries, wages and benefits	78,914	60,496
Contribution to - provident fund	2,080	1,536
- gratuity fund	1,287	970
- pension fund	7,242	1,146
Provision for unfunded pension scheme	256	275
Rent, rates and taxes	1,153	2,240
Legal and professional services	292	464
Fuel, light, power and water	9,303	7,741
Maintenance and repairs	19,315	14,848
Insurance	5,260	4,274
Depreciation and amortization	121,024	93,343
Security and other services	22,540	15,499
Travelling	3,223	2,807
Communications	5,273	6,177
Office supplies	6,780	6,178
Auditors' remuneration - note 20.1	588	429
Stores and spares consumed	24,031	16,195
Donations - note 20.2	1,296	433
Mobile dispensary	3,380	2,105
Compression study		1,354
Miscellaneous	7,239	9,502
	-----	-----
	320,476	248,012
	=====	=====

20.1 AUDITORS' REMUNERATION

Audit fee	140	125
Tax and advisory services, audit of funds and special reports	423	279
Out of pocket expenses	25	25
	-----	-----
	588	429
	=====	=====

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

	1998	1997
	(Rupees in thousand)	
21. OTHER INCOME		
Profit/interest on bank deposits	66,210	102,821
Profit on disposal of fixed assets	970	3,353
Liquidated damages from a customer	136	1,446
Miscellaneous	3,449	1,648
	-----	-----
	70,765	109,268
	=====	=====
22. FINANCIAL CHARGES		
Interest on - long term loans	30,246	48,121
- workers' profits participation fund	624	-
Mark-up on redeemable capital	49,255	57,914
Exchange risk and commitment fee	33,774	36,412
Other charges	996	923
	-----	-----
	114,895	143,370
	=====	=====
23. OTHER CHARGES		
Workers' profits participation fund	8,615	11,516
Workers' welfare fund	594	221
	-----	-----
	9,209	11,737
	=====	=====
24. CASH GENERATED FROM OPERATIONS		
Profit before taxation	163,098	218,578
Adjustment for non cash charges and other items:		
Depreciation and amortization	121,024	93,343
Profit on disposal of fixed assets	(970)	(3,353)
Employees' retirement benefits	266	287
Deferred credits	18,596	4,896
Interest income	(66,210)	(102,821)
Financial charges	114,895	143,370
Working capital changes - note 24.1	14,645	(78,637)
	-----	-----
	365,344	275,663
	=====	=====
24.1 Working capital changes		
Decrease/(Increase) in current assets		
Stores and spares	1,418	(14,086)
Trade debts	(1,537,747)	(792,529)
Loans, advances and prepayments	(2,886)	(2,478)
Other receivable (net)	(51,990)	(21,786)
	-----	-----
(Decrease)/Increase in current liabilities	(1,591,205)	(830,879)
Accrued and other liabilities (net)	1,605,850	752,242
	-----	-----

14,645 (78,637)
 ===== =====

25. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	1998			1997		
	Directors			Directors		
	Chief Executive	Other	Executives	Chief Executive	Other	Executives
Managerial remuneration	594	-	16,559	519	567	13,141
Company's contribution to provident fund	59	-	1441	52	-	1,149
Housing and utilities	563	-	11292	458	338	8,683
Leave passage and others	139	-	8,423	123	170	5,869
	1,355	-	37,715	1,150	1,075	28,842
Number of persons, including those who worked part of the year	1	-	72	1	1	65

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 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 thirteen directors was Rs. 26 thousand (1997: Rs. 27 thousand).

26. CAPACITY AND ACTUAL PRODUCTION

Considering the nature of the Company's business, information regarding capacity has no relevance. The actual production for the year ended June 30, 1998 was 137 BSCF (1997:136 BSCF).

27. TRANSACTIONS WITH ASSOCIATED UNDERTAKING

Sales to an associated undertaking, inclusive of government levies for the year ended June 30, 1998 amounted to Rs. 1,720.163 million (1997: Rs. 1,573.616 million).

28. COMPARATIVE FIGURES

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

Lt Gen Ghulam Muhammad Malik (Retd)
 Chief Executive

Abdus Sattar
 Director

Ten Years at a Glance

(Rupees in million)

	1997-98	1996-97	1995-96	June 1995 (Six months)*	1994	1993	1992	1991	1990	1989
FINANCIAL										
Revenue	5,446.36	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
Govt. Levies, Tax, Workers' funds, royalty excise duty and surcharge on gas	4,928.25	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
Net profit after taxation	153.49	196.74	75.09	57.43	120.43	49.16	50.59	53.21	66.72	72.78
Dividend	82.69	82.69	47.25	15.75	47.25	47.25	47.25	47.25	47.25	47.25
Issued & paid-up capital	367.50	367.50	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	363.98	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	6,300
Cumulative Production (BSCF)	1,900	1,763	1,627	1,494	1,422	1,282	1,152	1,048	949	845
No. of Producing Wells	64	62	59	59	59	59	47	47	47	47
Production (BSCF) - Daily Average (BSCF)	137	136	133	72	140	130	104	99	104	104
	0.375	0.373	0.364	0.398	0.384	0.355	0.284	0.273	0.284	0.284

*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.

Pattern of Shareholding as at June 30, 1998

No. of Shareholders	Shareholding		Total shares Held	
303	1	TO	100	20,331
1,254	101	TO	500	392,800
1,368	501	TO	1,000	822,600
470	1,001	TO	5,000	1,154,025
93	5,001	TO	10,000	681,775
48	10,001	AND	ABOVE	33,678,469
-----				-----
3,536				36,750,000
=====				=====

Categories of Shareholders as at June 30, 1998

Categories of Shareholders	Number	Shares held	Percentage
Individuals	3,511	3,636,956	9.90
Investment Companies	11	526,925	1.43
Insurance Companies	3	110,050	0.30
Financial Institutions	4	3,012,900	8.20
Modaraba Companies	4	63,175	0.17
Fauji Foundation	1	14,699,994	40.00
Government of Pakistan	1	7,350,000	20.00
Oil & Gas Development Company Limited	1	7,350,000	20.00
	-----	-----	-----
	3,536	36,750,000	100.00
	=====	=====	=====