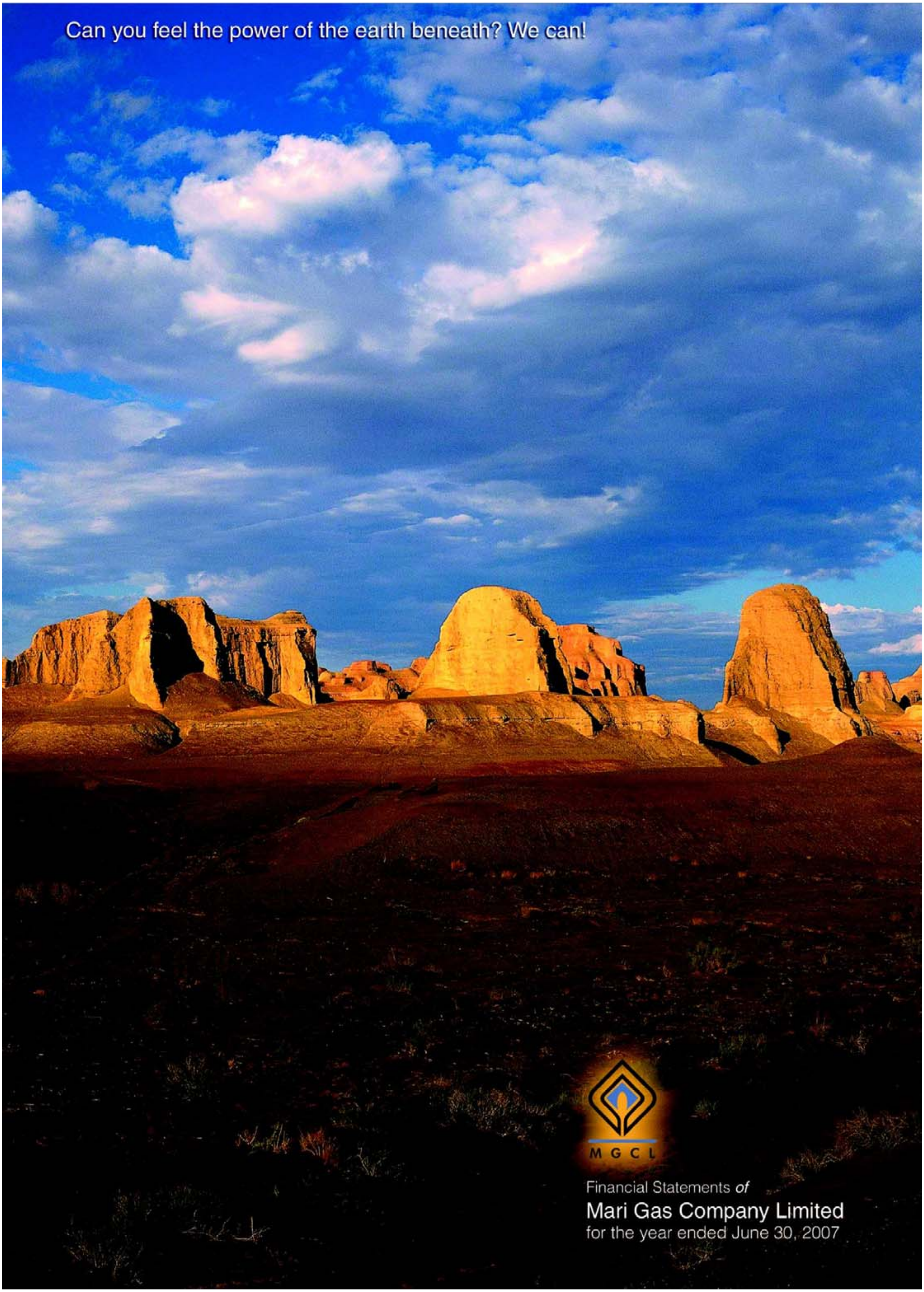
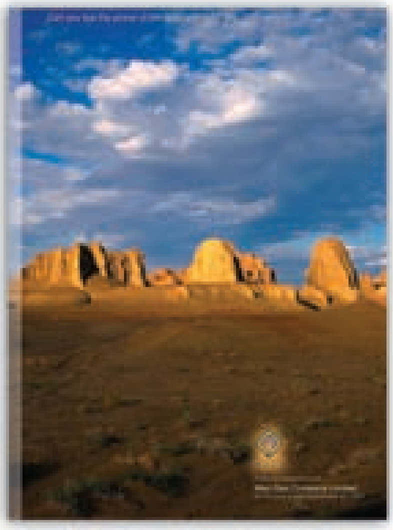


Financial Statements *of*

Mari Gas Company Limited

for the year ended June 30, 2007

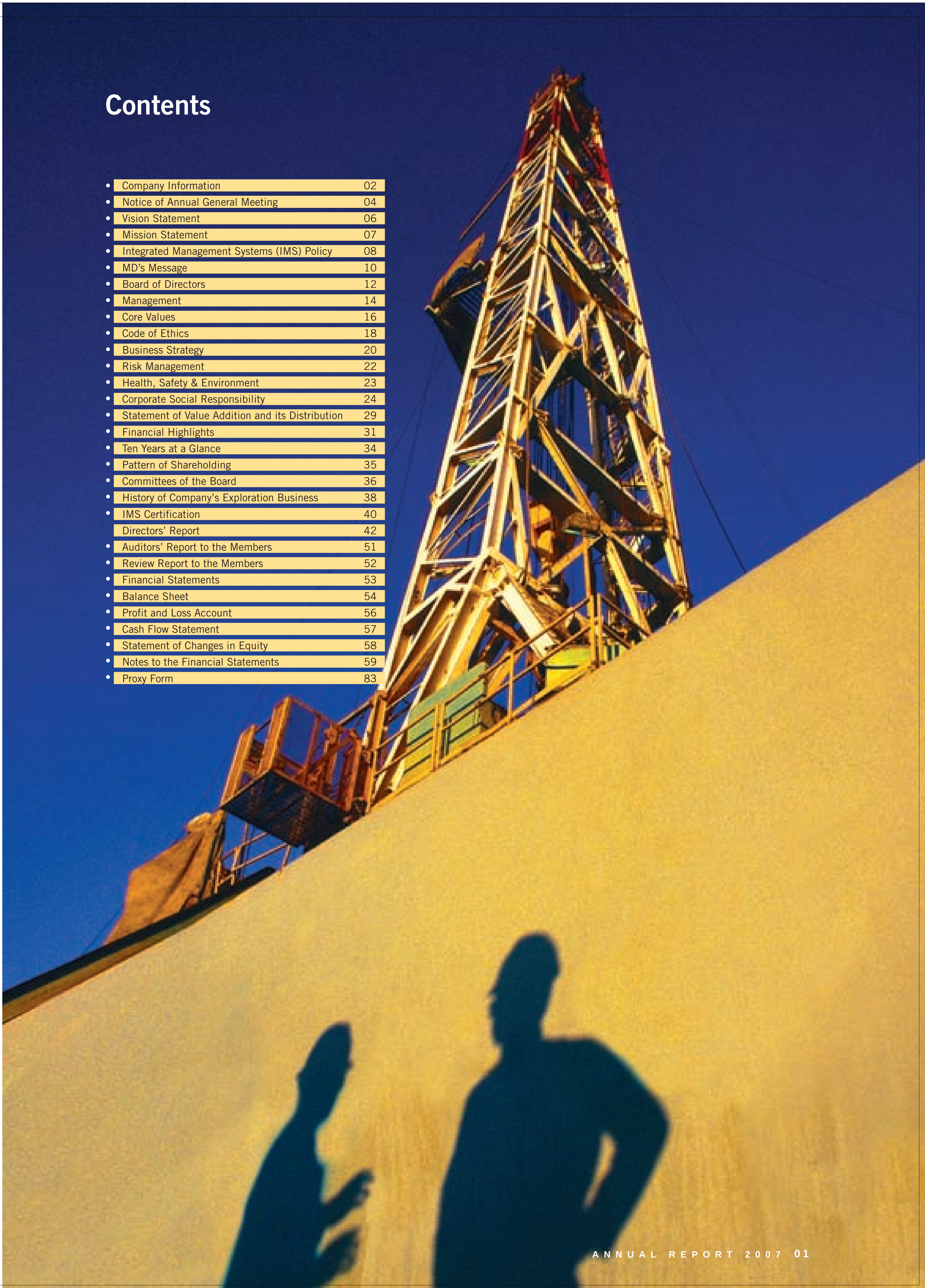
The Cover Concept



We spend our lives looking up the horizon for inspiration, for achievement and for goals that end way beyond the stars, but what we don't think all the time is that there is life right beneath our feet, in the earth. How can we stand on the ground every day and not feel its power? How can we spend our lives without wondering how it feeds us everyday and yet we don't admire the gifts it presents? At Mari Gas, we celebrate our earth as something beautiful, and perhaps even mysterious, for it has so many interesting secrets to reveal. We all look into the unexplored side of the nature, beneath the earth, that's where the energy is, the passion is, and the wealth of our business. Instead of seeing rainbows in the sky, we look opposite down to the rainbows formed without light under our feet, beneath the soil.

The glorious wonders and the vast resources nature has endowed the earth with are certainly important to our ancestors, to us, and to our children. We are here to let our love and knowledge serve the meaning of the earth. We have started to tap into the absolute jewel of nature that makes our lives easier and energize them with its hydrocarbon resources. We are here to explore, produce, extract, deliver and to ensure the proper use of gas. From monetary efficiency and materialism we have shifted our emphasis towards a sustainable quality of life and to the healing of our society, of our people and our energy systems, with proper technology and right people.

Contents



Company Information

Legal Advisors

Orr Dignam & Company

Khan & Piracha

Auditors

M. Yousaf Adil Saleem & Company

Chartered Accountants

Bankers

Allied Bank of Pakistan Limited

Askari Commercial Bank Limited

Bank Alfalah Limited

Habib Bank Limited

Mybank Limited

National Bank of Pakistan

Soneri Bank Limited

Saudi Pak Commercial Bank Limited

United Bank Limited

Registered Office

21-Mauve Area, 3rd Road,

Sector G-10/4,

Islamabad.

Website: www.marigas.com.pk
Email: info@marigas.com.pk

Take a trip to the land where we reign

Notice of Annual General Meeting

Notice is herby given that the 23rd Annual General Meeting of the Shareholders of Mari Gas Company Limited will be held on Tuesday, October 23, 2007 at 12:00 noon at Hotel Pearl Continental, the Mall, Rawalpindi to transact the following business:-

1. To confirm the minutes of the 22nd Annual General Meeting held on October 17, 2006.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2007 together with the Directors' and Auditors' reports thereon.

3. To appoint Auditors for the year 2007-08 and fix their remuneration.

By order of the Board

Assad Rabbani
Company Secretary

Islamabad
October 01, 2007

NOTES:

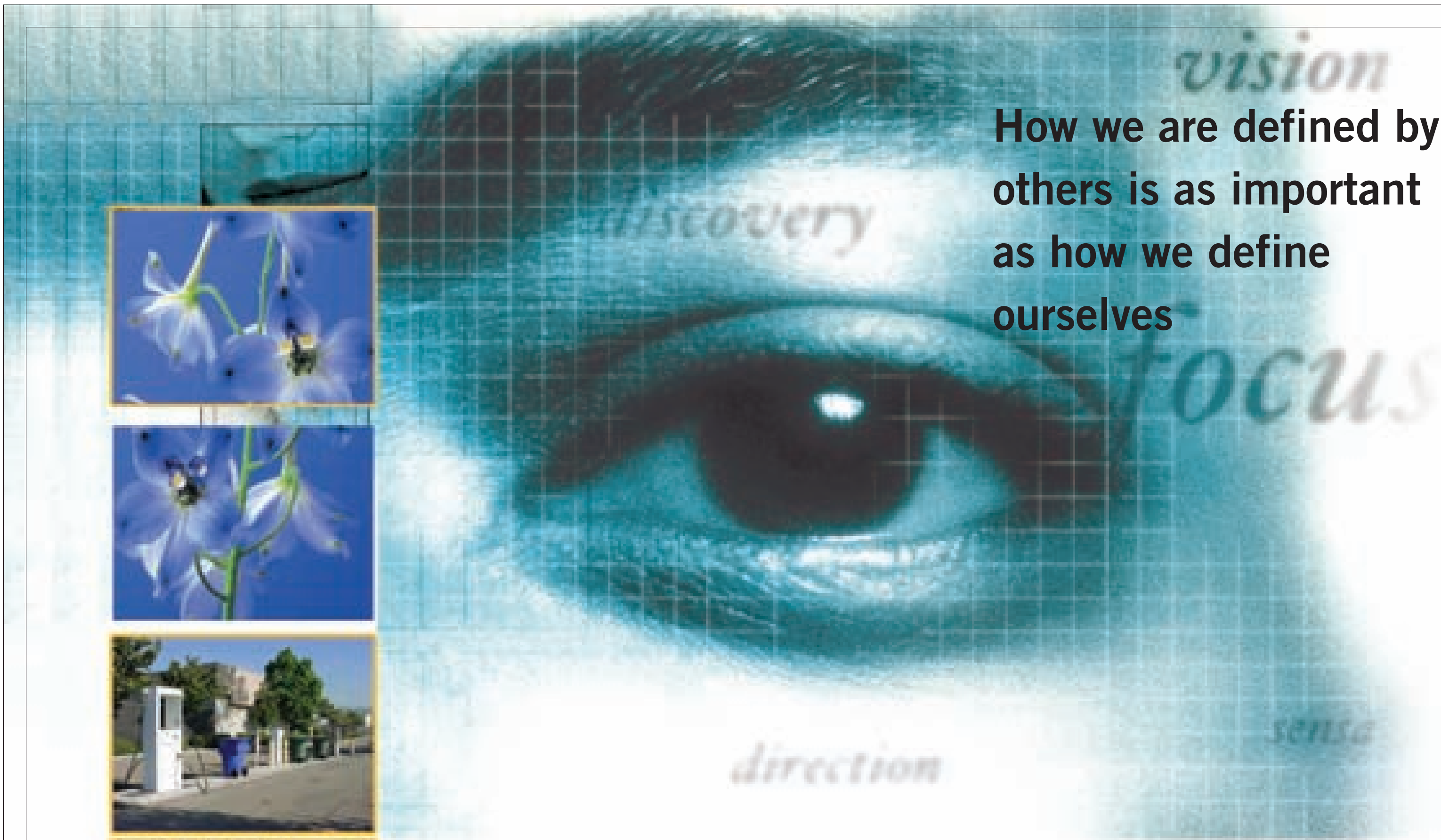
1. The Share Transfer Books of the Company will remain closed from October 17, 2007 to October 23, 2007 (both days inclusive).

2. Members whose shares are deposited with the Central Depository Company of Pakistan (CDC) are requested to bring their Original Computerized National Identity Card along with Participant's ID number and their account numbers in CDC to facilitate identification at the time of Annual General Meeting.

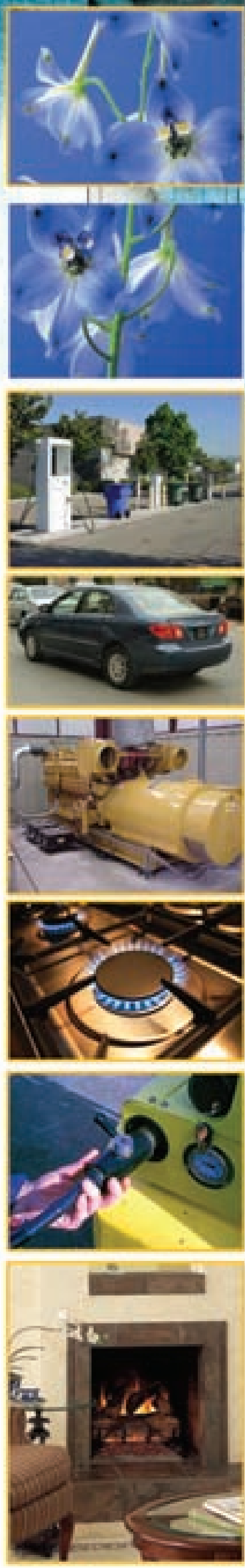
3. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy. The instrument of proxy duly executed in accordance with the Articles of Association of the Company must be received at the Registered Office of the Company at Islamabad not less than 48 hours before the time of holding of meeting.

4. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.

Being daydreamers help us act on our dreams straightaway



How we are defined by others is as important as how we define ourselves



Vision Statement

Be the leader in the gas market in Pakistan by expanding and developing the gas value chain including exploration, production, transmission, extraction, processing, distribution and marketing of gas and gas related processes, products and services in order to bridge the increasing demand for gas with a view to meeting the needs of the existing and potential customers.

Exploit any hydrocarbon-based sources when the opportunities present themselves in order to move beyond the existing gas business with a view to providing superior value to customers and others through expansion and synthesis of products and services.

Mission Statement

Mari Gas Company Limited will be customer-focused and competitive with a view to continue contributing meaningfully to the national economy while ensuring viability of the Company and profitable dividends to the stakeholders.

We will achieve our mission by:

a. Providing uninterrupted gas supply to customers.

b. Maintaining good operational practices.

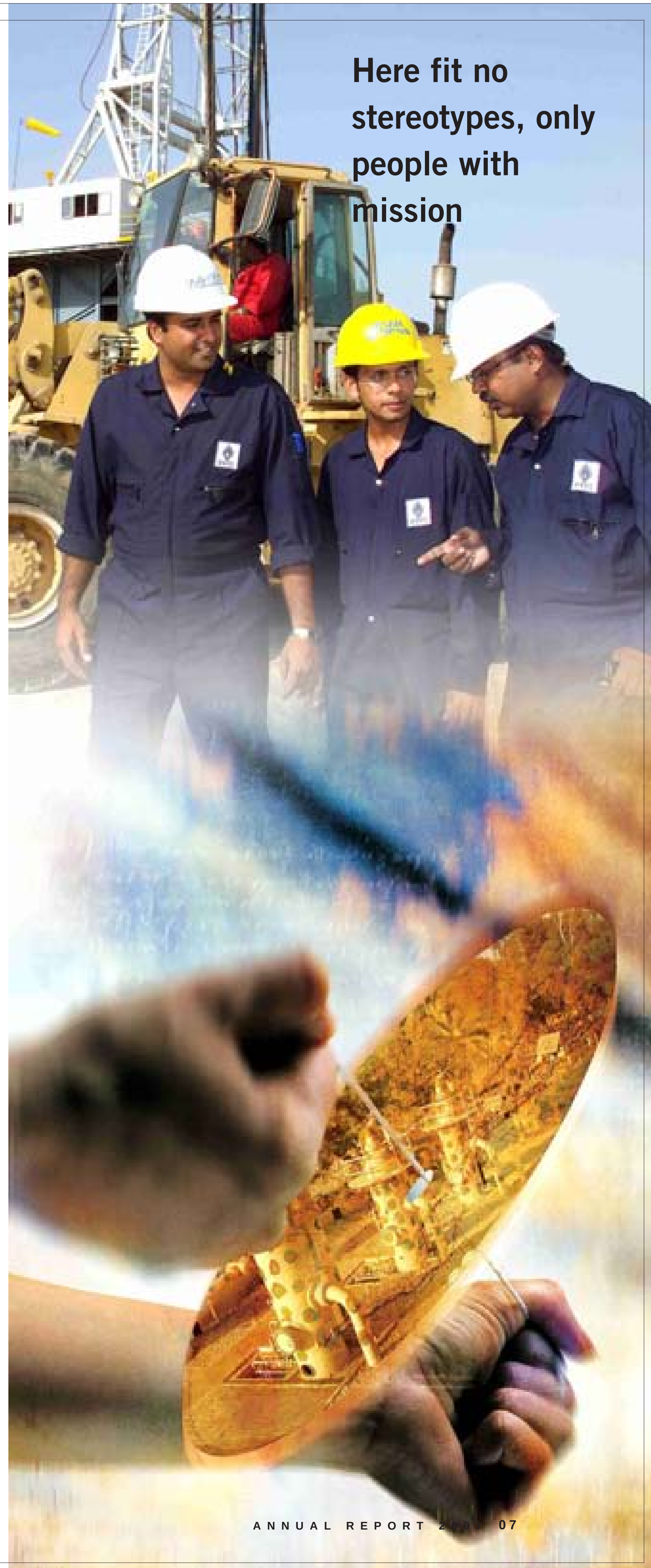
c. Adopting advanced technology, cost effective/efficient operations, increasing operating efficiency and adherence to high environmental standards.

d. Exploring and enhancing the potential of our human resources.

e. Aligning the interest of our sharholders, human resources, customers and other stakeholders to create significant business value characterized by excellent financial results, outs professional accomplishments and superior performence.

f. Ensuring safety, reliability and a healthy environment for workforce.

Here fit no stereotypes, only people with mission

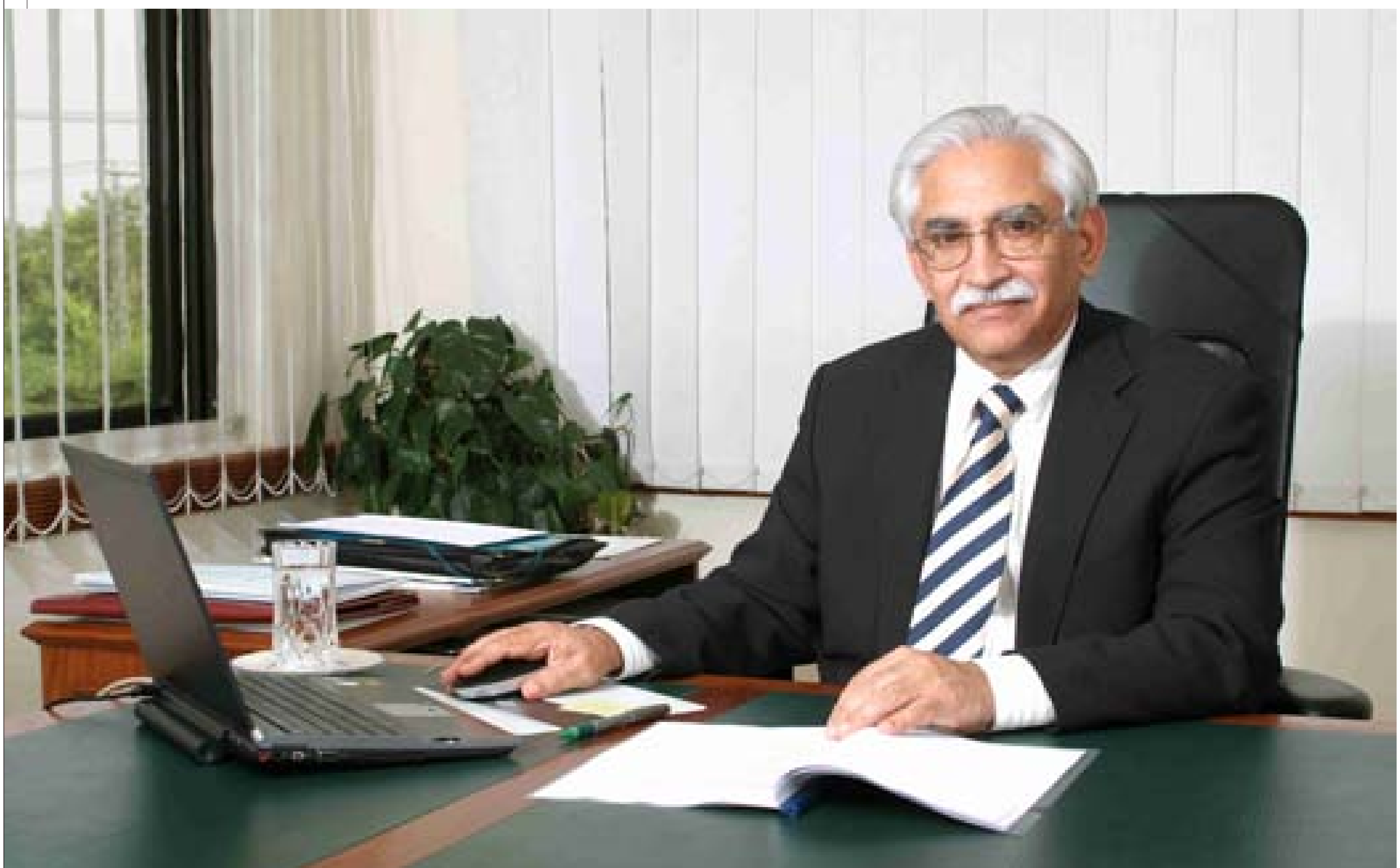


Integrated Management Systems (IMS) Policy

To realize our strategic vision and to achieve professional excellence in Petroleum sector, we are committed to meet requirements of Integrated Management Systems for Quality, Environment and Occupational Health & Safety, consistent with internationally recognized management system standards. We are devoted to maintain effectiveness and continual improvement of IMS by monitoring company objectives, customer satisfaction and complying with the legal and other applicable requirements. Our top management is committed to provide substantial resources for prevention of pollution and to attain best performance in occupational health and safety management.

MGCL Connection and Working Interests

MD's Message

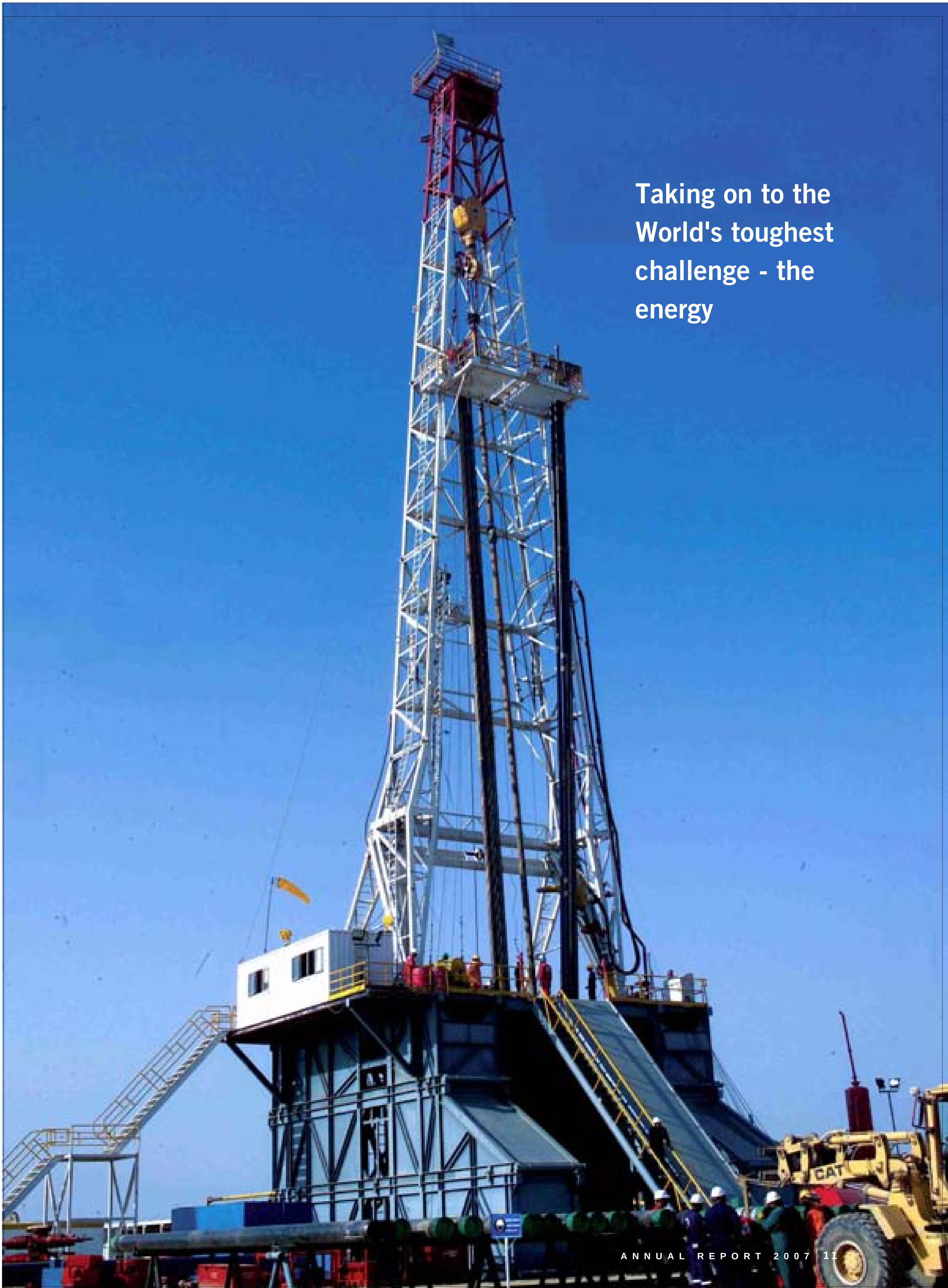


I feel gratification in the conclusion of yet another successful year of Mari Gas Company Limited's service to the nation. Not only have we been able to deliver incessant gas to our treasured customers, but the contribution to the national exchequer has also seen substantial upsurge over the past years.

This, I believe, would never have been possible without the indigenous and fervent endeavors of our human resource and the technical proficiency gained over the passage of time.

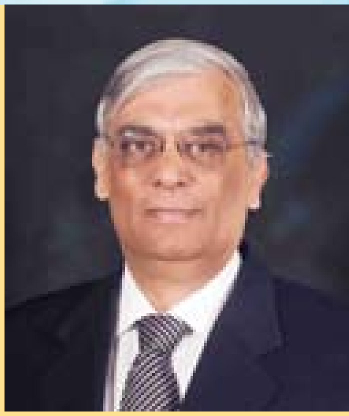
We must not, however, pull back our reins here as the horizons that I envisage for Mari Gas are far ahead than where the rest see the summit. Only persistent and heartfelt efforts in the right direction can lead us to our destiny and I can see the silhouette of our tomorrow more vivid than ever. I believe that marvelous things happen when you combine a strong vision, a pool of talented professionals and a lot of stamina. Mari Gas is blessed with all.

May Allah sanctify this Company with the share of successes it deserves, Ameen.

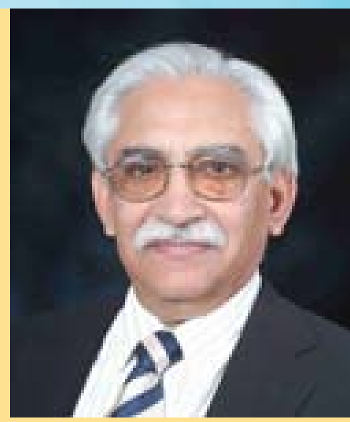


Taking on to the World's toughest challenge - the energy

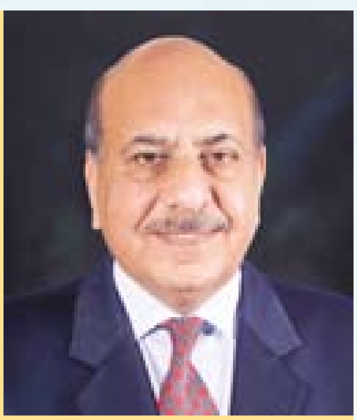
Board of Directors



Lt Gen Syed Arif Hasan (Retd)
Managing Director, Fauji Foundation

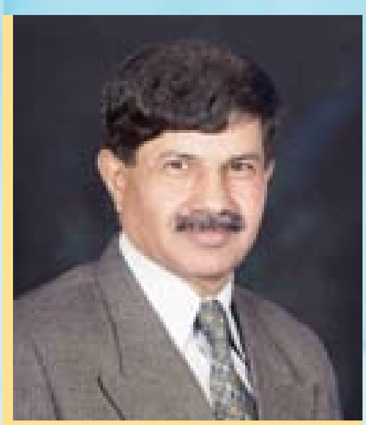


Lt Gen Imtiaz Shaheen (Retd)
Managing Director, Mari Gas Company Ltd.



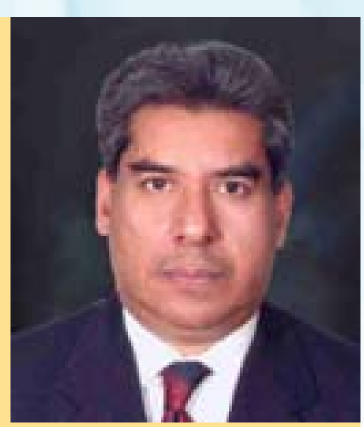
Qaiser Javed
Director Finance, Fauji Foundation

Brig Arif Rasul Qureshi (Retd)
Director Industries, Fauji Foundation

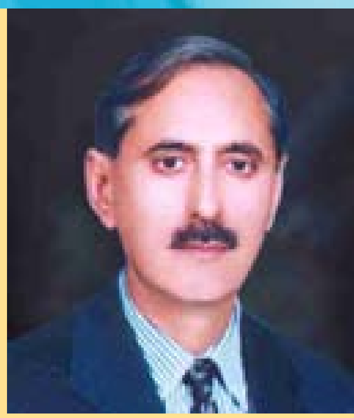


Brig Rahat Khan (Retd)
Director P&D, Fauji Foundation

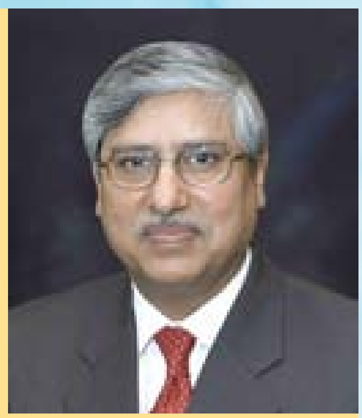
Dr. Nadeem Inayat
Corporate Advisor, Fauji Foundation



Shaukat Hayat Durrani
Additional Secretary, Ministry of P&NR

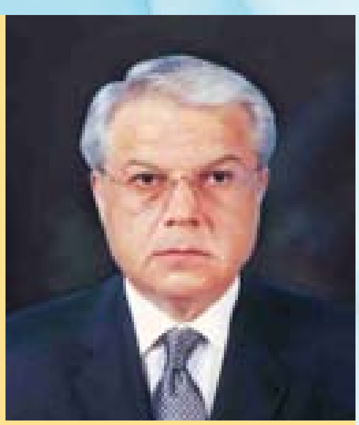


Muhammad Razi Abbas
Additional Finance Secretary, (Corporate Finance)
Finance Division

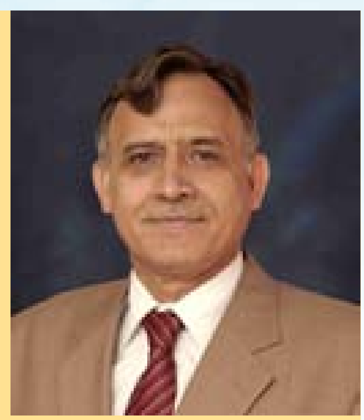


Muhammad Naeem Malik
DG Petroleum Concessions, Ministry of P&NR

Arshad Nasar
Chairman / Managing Director, OGDCL

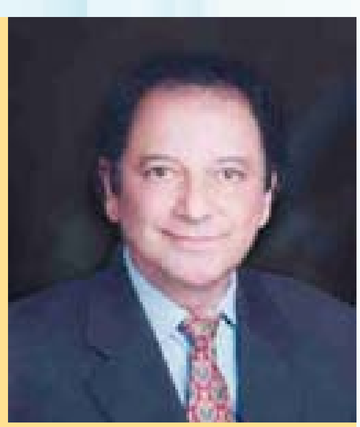


Muhammad Riaz Khan
GM Production, Process & Plants, OGDCL



Tahir Azizuddin
Executive Director (Petroserv), OGDCL

Abdus Sattar
Financial Advisor, MGCL



Zahid Hussain
Deputy Managing Director,
National Investment Trust Ltd.

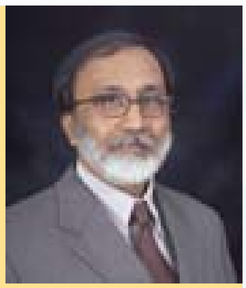
Assad Rabbani
Company Secretary

Management

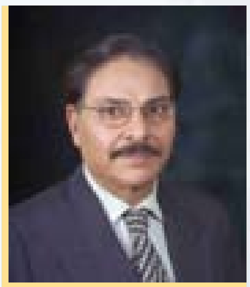
From left to right 1st Row: Brig Muhammad Aslam Khan (Retd) (GM Admin & HR), Lt Gen Imtiaz Shaheen (Retd) (Managing Director), Mr. Shamim Ahmed Bhatti (Senior General Manager)

From left to right 2nd Row: Mr. Assad Rabbani (Company Secretary), Mr. Muhammad Maroof (Acting General Manager Exploration), Mr. Muhammad Asif (General Manager Finance), Mr. Muhammad Ali Mughal (Acting General Manager Operations)

Key Personnel

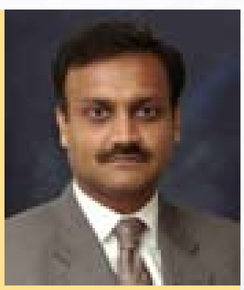


Asif Ali Rangoonwala
Manager BD



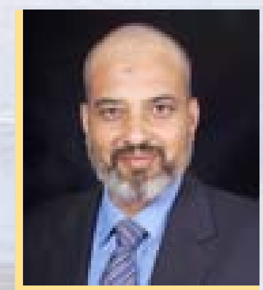
Muhammad Liaqat Ali Khan
Manager Production

Lt. Col Muhammad Haddique
Manager Administration, Daharki

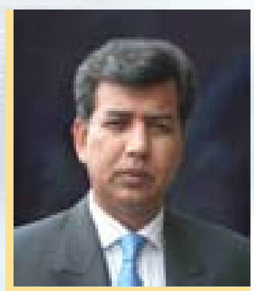


Muhammad Aqib Anwer
Manager Finance

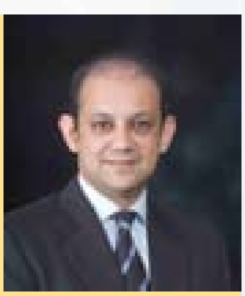
Shahid Hussain
Manager Accounts



Javed Iqbal Jadoon
Manager P&E

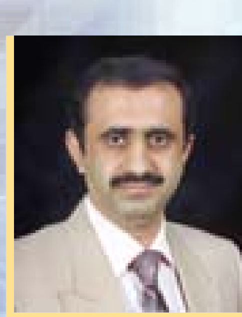


Major Iftekhar-ul-Haq
Manager Administration

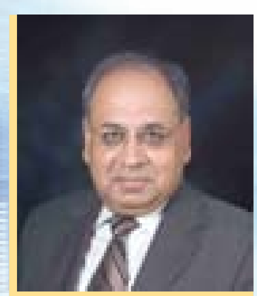


Ali Ejaz Rasool
Head-Internal Audit

Muhammad Saleem Siddique
Manager Production, Daharki



Tufail Ahmed Khoso
Manager Exploration

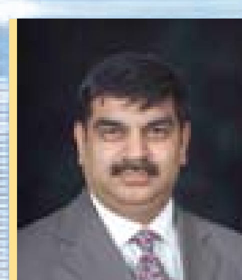


Mahboob A. Habib
Manager Finance JV

Group Captain Shahim Ahmad (Retd)
Manager Procurement

Col Shah Rukh (Retd)
Manager Projects

Numair Awan
Manager HSE



Shaikh Naveed Ahmed
Acting Manager HR

Core Values

1. **INTEGRITY**

   We maintain the highest standards-ethical, moral and legal in all our dealings with our customers and with each other, without compromise. Integrity is the foundation of who we are and what we stand for. Integrity means that there is no gap between what we say and what we do and there is continuity between our thoughts and actions.

2. **TEAMWORK**

   We treat one another with respect and communicate openly. We foster collaboration while maintaining individual accountability. Coming together is a beginning, staying together is progress and working together is success.

3. **INNOVATION**

   We thrive on creativity and ingenuity. We seek the innovations and ideas that can change the world. We anticipate market trends and move quickly to embrace them. We are not afraid to take informed, responsible risk.

4. **PROFESSIONAL EXCELLENCE**

   Knowledge is our capital. We maintain a second-to-none level of technical/professional competence in our core areas and assign work to those who are best qualified for the task. We take the ethical responsibilities of our profession very seriously.

5. **PEOPLE**

   Employee talent is the cornerstone of our success. Their expertise and capabilities win us the work, perform the work, create value for our clients, and generate loyalty in our investors. So we create an environment where our employees meet fresh, exciting challenges and experience the satisfaction of a job well done. In MGCL, every employee contributes to value-added performance.

6. **TRUST & RESPECT**

   We earn the trust and respect of our customers, colleagues, Government Authorities and others by being open, honest and honorable in all we say and do.

7. **WINNING CULTURE**

   We commit to provide an environment that enables our customers, associates and suppliers to achieve and celebrate success.

8. **HEALTH, SAFETY & ENVIRONMENT**

   We believe in, and strive for, a healthier society, safer living and environment friendly policies and practices.

The workshops of our minds turn energy into wealth and accomplishment

Code of Ethics

The **Code of Ethics** sets out the Company's objectives and its responsibilities to various stakeholders and the ethical standards required from its directors and employees to meet such objectives and responsibilities.

Financial Disclosure

All transactions should be accurately reflected according to accounting principles in the books of accounts.

Conflict of Interest

The Directors and employees of the Company must recognize that in the course of performing their duties, they may be out into a position where there is a conflict in the performance of such duty and a personal interest they may have. It is the overriding intention of the Company that all business transactions conducted by it be on arms length basis.

Compliance with Laws, Directives & Rules

Compliance with all applicable laws, regulations, directives, and rules including those issued by the Board of Directors and management.

Confidentiality

Confidentiality of the Company's internal confidential information must be maintained and upheld, which includes proprietary, technical, business, financial, joint-venture, customer and employee information that is not available publicly.

Conduct of Personnel in Dealings with Government Officials

The Company shall deal with the Government officials fairly and honestly and within the ambit of the applicable laws, in order to uphold the corporate image of the Company.

Time Management

The directors and the employees of the Company shall ensure that they adopt efficient and productive time management schedules.

Business Integrity

The directors and employees will strive to promote honesty, integrity and fairness in all aspects of its business and its dealings with vendors, contractors, customers, joint venture participants and Government officials.

Gifts, Entertainment & Bribery

The directors and employees shall not give or accept gifts, entertainment, or any other personal benefit or privilege that could influence business dealings

Insider Trading

Every director and employee who has knowledge of confidential material information is prohibited from trading in securities of the Company to which the information relates.

Health, Safety & Environment

The Company, its directors and employees will endeavor to exercise a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement.

Involvement in Politics

Company shall not make payments or other contributions to political parties and organizations. Employees must ensure that if they elect to take part in any form of political activity in their spare time, such activity does not and will not have any adverse affects on the Company and such activities must be within the legally permissible limits.

Equal Employment Opportunity

It is the policy of the Company to provide employment opportunities without regard to race, religion, color, age or disability subject to suitability for the job.

Compliance

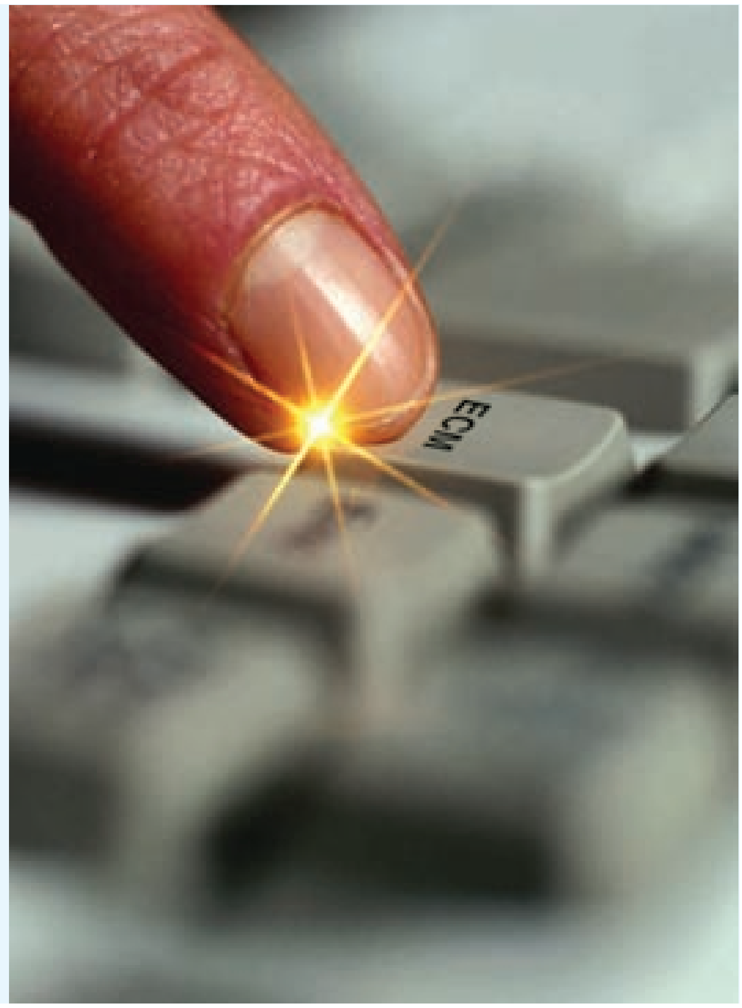
Failure to adhere to the Company's business practices or Code of Ethics may result in disciplinary action, which could include dismissal.

Accountability

All Company directors and employees must understand and adhere to the Company's Business Practices and Code of Ethics. They must commit to individual conduct in accordance with the Company's Business Practices and Code of Ethics and observe both the spirit and the letter of the Code in their dealings on the Company's behalf.

Business Strategy

Business-focused approach to use Information Technology into the structure and culture of the company to enhance productivity, efficiency and strengthen our abilities in exploring and materializing new opportunities.



IT Strategy

"To transit MGCL into an IT regime which can lay the foundation for the development of an integrated, enterprise wide information architecture.

The mission is to use IT to:

a) create an innovative culture
b) enable an aggressive expansion strategy, and
c) increase organizational effectiveness and efficiency

Enterprise Content Management (ECM)

ECM System implementation is in process that will help better manage non-structured data, automate workflows, and provide tools to integrate information stored in different computer systems used in the Company and will link with planned Enterprise Resource Planning (ERP) System.

We are adventurers looking for treasures beneath the earth

Risk Management

Risk Management is the process of assessing the risk faced by an organization and developing strategies to minimize the effect by a strategic focus, forward thinking, balance between the cost of managing risk and the anticipated benefits and contingency planning.

PURPOSE of the policy is to establish guidance for managing risk faced by the Company and to identify roles and responsibilities for each level of risk management as well as standard processes and techniques.

Policy applies to whole company, all its significant activities, offices, employees, departments and locations.

POLICY GUIDELINES

The policy guidelines include:

- **Risk Identification**

  Identification of the types of risks the Company may face including among others exploring dry holes, credit risk, law and order situation, technical/operational risk, environmental evaluation, natural risks etc.

- **Risk Analysis**

  Analyzing the impact of the risk on the exploration and sale of gas, joint ventures and long term contracts, well decommissioning on surrender of area, contingencies and commitments, personnel and environment.

- **Risk Handling**

  Subsequent to analysis of the risks identified, risk handling at MGCL includes well-documented systems and procedures, establishment of risk management processes and Risk Management Committees, a key control checklist in all spheres of business, adequate insurance coverage and establishment of an independent Internal Audit function.

Health, Safety & Environment

Maintaining outstanding HSE performance is a core value of MARI GAS and has been made possible through devoted leadership and enthusiastic teamwork of all the employees. Our HSE responsibilities are directed by our HSE policy, strategy and management system, which guide our businesses in the development of their HSE processes.

Our Policy is that we accept our responsibility to protect the environment and take care of health and safety of our employees, their families and the public. Health, safety and environment performance are core values of the Company and will be managed as an integral part of our business to benefit employees, customers, neighbors and stockholders.

Our HSE Strategy is based on following principles:

- Conducting business in a manner that protects public and occupational health, the environment and employee safety.
- Striving to eliminate all accidents and environmental incidents.
- Making HSE considerations a priority in our operations and planning for new facilities and processes.
- Complying with all HSE laws and regulations.
- Reducing emissions and waste and use energy and natural resources efficiently.
- Working with our employees, suppliers, customers, contractors and partners to promote responsible management of products and processes.
- Encouraging constructive communication with our employees, suppliers, customers, neighbors and stockholders about managing health, safety and environmental issues.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) in any company shows its strategic and diversified vision towards its employees and society. At Mari Gas Company Limited (MGCL) we believe that CSR is about the integration of social, environmental, and economic considerations into the decision-making structures and processes of our business. MGCL being one of the largest Exploration and Production Company in Pakistan is conscious of its obligations towards the society and the environment. We have a history of community involvement and we can say this with great pride that we have done a great job. There is potential in our organisation to reach new heights and we are prepared to exploit that potential. In doing so, we are cognisant of the fact that we must aim for a balanced approach - the integration of economic, environmental, and social imperatives.

Recognising the importance of CSR has lead MGCL to develop new partnerships, new spheres of existing partnerships, skill acquisitions, health and environmental protections, social cohesion and equal opportunities – some of these partnerships are given below:

HEALTH

In order to uplift the socio-economic level of the area, MGCL is undertaking a number of healthcare projects in its operational area for the poor community. A major dispensary is located at well # 8 which provides basic health facilities and treatments to villagers in close proximity and a maternity home located at union council Dad Laghari treating about 40,000 patients annually. MGCL also runs mobile dispensaries at 12 various locations weekly in the Mari Development & Production (D&P) lease and its suburbs covering an area of 969.27 sq km; treating 120,000 patients annually. Medicines & diagnostic services are provided free of cost from these mobile dispensaries which amounts to over 10.5 million rupees annually.

In addition MGCL and its employees joined their hands together to fight against the deadly disease of tuberculosis for which MGCL built a "MARI MEDICAL TRUST" in 1997 which is exclusively giving treatment against that deadly disease. A sum of Rs. 3 Million has been spent for the trust since its inception.

In 2004-05 during the operation of Mobile Dispensaries it was observed that "Hepatitis B" is one of the major causes of mortality in the community. Initial survey indicated that about 20-25% of the population is infected with this deadly disease. MGCL acted promptly and launched a comprehensive vaccination campaign against the disease. The project was divided into five phases out of which three phases have been completed and around 70,000 people have already been immunized using the best available vaccine in Pakistan by spending over Rs 33 million. A total of around 60,000 persons will be immunized in the next two phases.

Mari Gas Company Limited has constructed a state of the art 20 bed hospital in Mirpur Mathelo. The hospital is fully furnished and equipped with all the amenities required for such a facility. Built at a cost of Rs. 12.5 million the hospital has since been handed over to local district government Ghotki, not only as a commitment of MGCL towards locals but also contributed to "Poverty Alleviation Program" scheme of President.

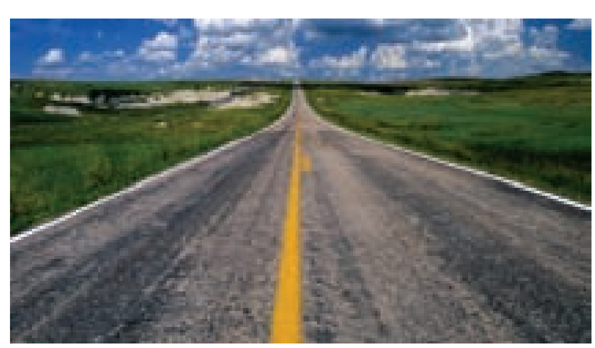
The company is also a major contributor towards public healthcare institutions in the region. A handsome amount is donated every year to Tehsil Hospital of Daharki, Mirpur Mathelo and Civil Hospital at Sukkur for life saving drugs and modern hospital equipments.

EDUCATION

MGCL strongly believes in contributing towards improving the literacy rate of the poverty stricken community. This effort can be seen in the significant contribution made towards basic education at Mari Field Community. The Company has built middle & primary schools, madrasas at various locations in the Mari Field vicinity.
MGCL is supporting the local females to increase their income levels through various income generating activities. As a part of these activities MGCL has set up a vocational training center which aims to teach/train the people of the area by promoting and enhancing their existing skills in producing traditional craft.

ROAD INFRASTRUCTURE

Mari Field is located in a deserted region where no road infrastructure was available at all. The company has constructed an excellent road network, over-head canal crossings & maintained existing roads network comprising of metalled (58 km) and dirt roads (380 km) respectively, which is facilitating the locals a lot in traveling/visiting the nearby towns/cities.



Stewards of the environment and its future

DRINKING WATER

The scarcity of drinking water in the desert area of Mari Field has been a source of great inconvenience for the local inhabitants. Company has installed hand pumps and constructed overhead water tanks at different locations/areas in the field which are filled through water tankers to supply potable water for the local community.

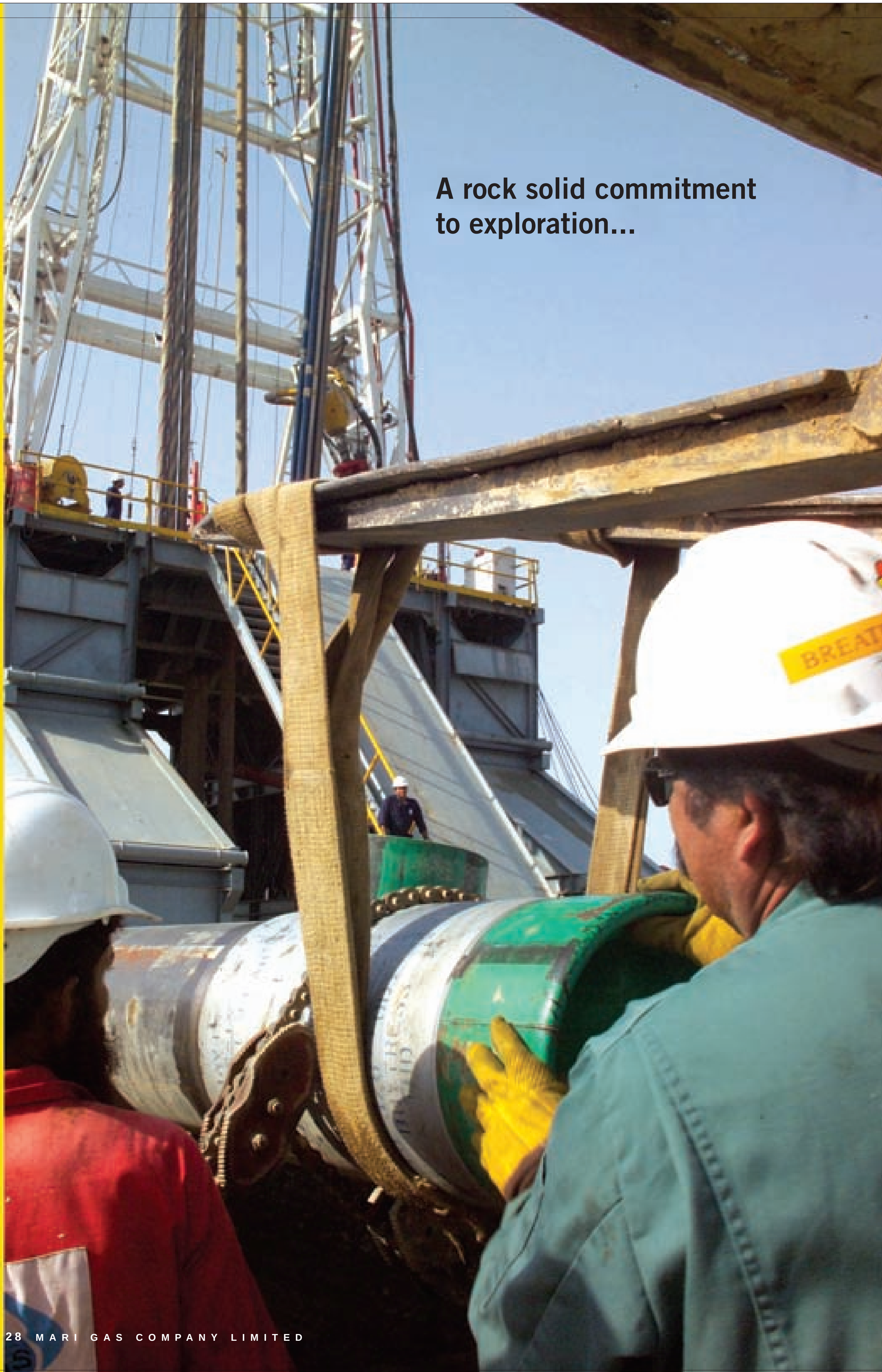
OUTSIDE MARI DEVELOPMENT & PRODUCTION (D & P) LEASE AREA

The Company has expensed more than 2.5 million rupees on its newly operational Zarghun South Gas Field in Baluchistan to build a new Primary School & water lined channel to avoid wastage of water for the community of 2000 people at village Dilwani.

The Company has undertaken a water supply scheme at its Ziarat Block, which will provide clean drinking water to approximately 2,500 inhabitants of Ziarat Kuch village, Tehsil Harnai, Distt Sibi by spending 1.8 million rupees.

MGCL, while commencing operation in any particular area, hires local residents and outsource jobs to local contractors and vendors thus enabling job opportunities and revenue generation for the local community. It not only raises the level of community capacity but also increases the self-esteem of individuals and establishes role models that serve to instill a culture of work in younger generations.

The company portrays only the conscientiousness of its stakeholders. It is a success or a failure; corrupt or transparent; progressive or narrow-minded only because of the people who run it. Similarly if socially responsible people run it, the company will invariably become a socially responsible corporate. The company adopts the values and the integrity of its workforce. The soul of MGCL is, without a doubt, actually the soul of its people.



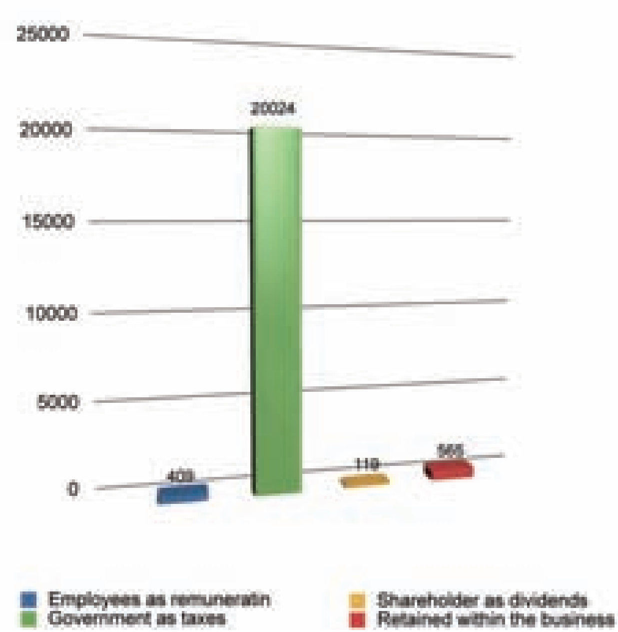
A rock solid commitment to exploration...

Statement of Value Addition and its Distribution

During the year, Company has paid an amount of Rs 20,024 Million to the national exchequer in the form of levies including gas development surcharge, excise duty, general sales tax, royalty, workers funds and taxes, which constitutes 90% of gross sales. Rs 409.47 million have been paid as employees' remuneration.

This year, MGCL retained profit within the business amounting to Rs 564.88 million and distributed an amount of Rs 119 million as guaranteed return to the shareholders under the terms of the Mari Gas Well Head Price Agreement.

Statement of Value added and its distribution
(Rs in Million)



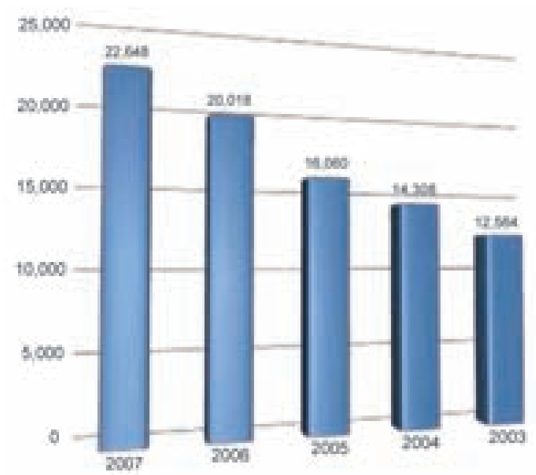
The human energy...

Financial Highlights

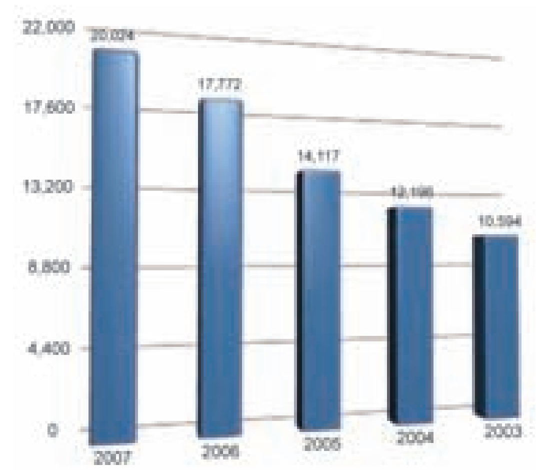
		Year 2006-07	Year 2005-06
Revenue	Rupees in million	**22,647.80**	20,018.14
Government levies	Rupees in million	**20,023.98**	17,771.56
Profit before tax	Rupees in million	**1,382.14**	602.64
Profit after tax	Rupees in million	**683.89**	189.25
Dividend per share	Rupees	**3.22**	3.10
Property, plant & equipment - at cost	Rupees in million	**6,665.23**	6,217.37
Number of shares issued and subscribed	Share in million	**36.75**	36.75

Financial Highlights

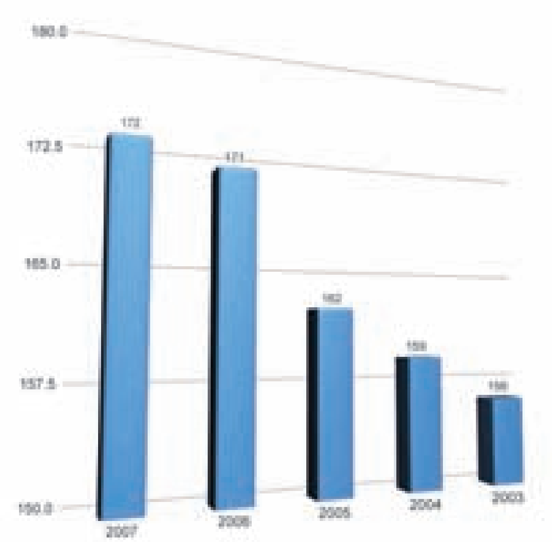
Gross Revenue
(Rupees in Million)



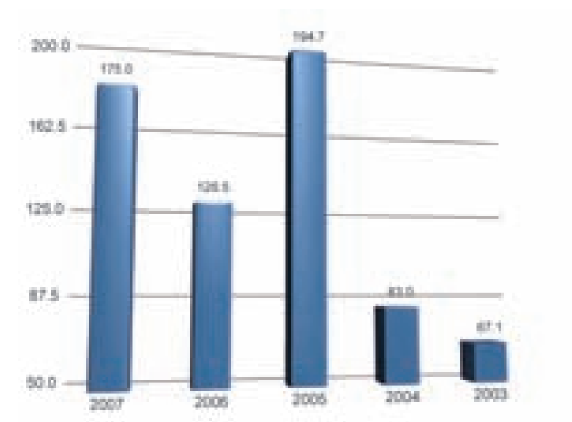
Government Levies
(Rupees in Million)



Gas Sales Volume
(BSCF)

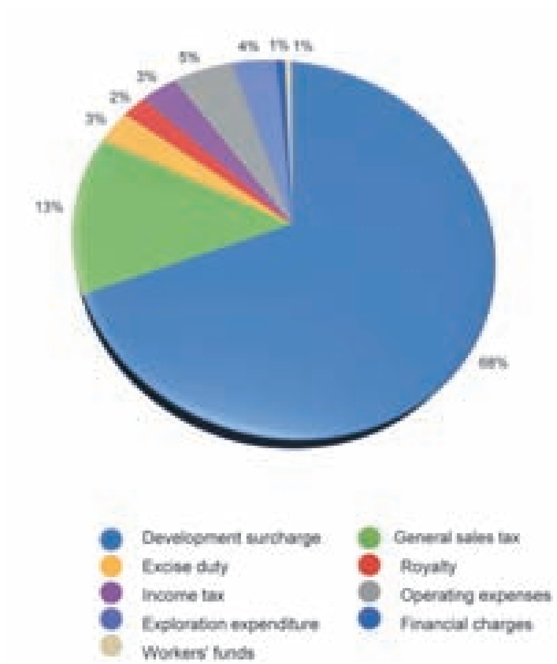


Market Share Price Trend
(Per Share Price)



Application of Revenue Earned For the Year 2006-07

(Rupees in Million)

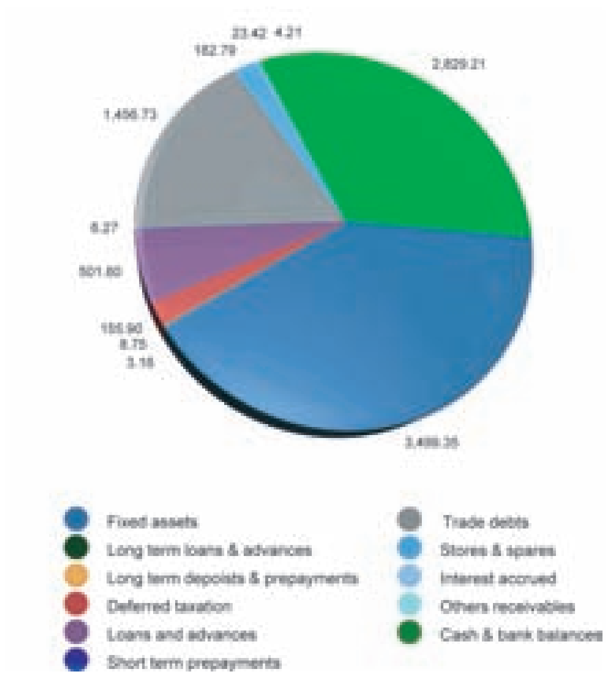


Application of Revenue Earned For the Year 2005-06

(Rupees in Million)

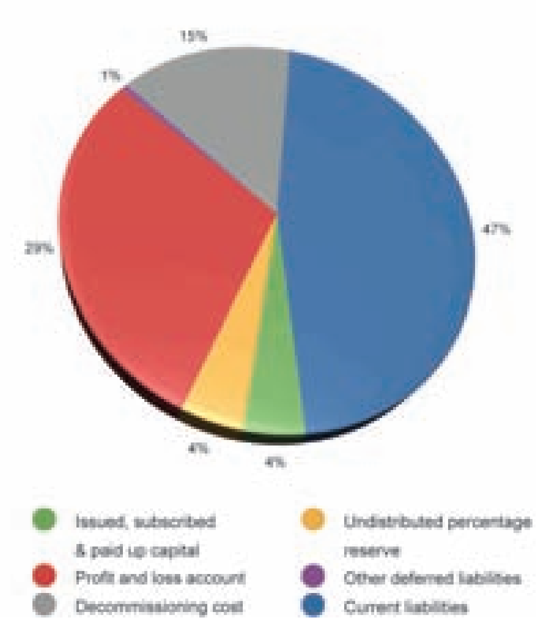
Assets 2006-07

(Rupees in Million)



Equities & Liabilities 2006-07

(Rupees in Million)



Ten Years at a Glance

	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98
	(Rupees in million)									
FINANCIAL										
Revenue	22,647.80	20,018.14	16,059.63	14,308.22	12,564.22	11,441.45	10,600.32	9,117.06	6,037.39	5,595.74
Government levies Income tax, workers' funds,royalty, excise duty, sales tax and surcharge on gas	20,023.98	17,771.56	14,117.36	12,195.90	10,594.20	9,905.29	9,820.34	8,421.77	5,432.14	4,928.25
Net Turnover	3,677.11	2,811.71	2,693.94	2,762.78	2,436.17	1,681.26	931.47	807.23	694.19	612.45
Operating profit	1,237.48	344.09	656.49	990.97	1,149.98	507.67	308.08	266.02	247.08	216.44
Net profit before tax	1,382.14	602.64	677.93	936.82	1,052.35	402.99	282.14	284.85	229.35	163.10
Net profit after taxation	683.89	189.25	361.52	519.80	646.01	394.58	191.59	198.73	160.23	153.49
Issued & paid up capital	367.50	367.50	367.50	367.50	367.50	367.50	367.50	367.50	367.50	367.50
Reserves	2,880.77	2,315.15	2,239.75	1,990.21	1,581.25	1,045.48	761.15	652.25	536.21	458.66
Property, plant & equipment	3,499.35	3,395.29	3,726.83	3,731.88	3,566.37	1,915.39	1,803.36	1,015.98	1,023.70	1,030.78
Net current assets	942.62	805.72	808.73	882.37	701.01	578.14	279.98	161.33	171.99	237.23
Long term financing, provisions & deferred liabilities	1,361.60	1,528.39	1,939.45	2,265.83	2,326.72	1,087.84	964.71	118.40	162.71	234.69
INVESTOR INFORMATION										
Earning per share (EPS)	5.68	5.06	4.45	4.07	3.79	3.59	2.61	2.55	2.49	2.43
Earning per share – as per GPA	18.61	5.15	9.84	14.14	17.58	10.74	5.21	5.41	4.36	4.18
Debtor turnover	22	20	21	22	42	63	51	37	104	119
Market value per share at the end of year	175.00	126.50	194.65	82.95	67.05	37.55	21.85	18.00	17.90	17.90
Price earning Ratio	30.81	25.02	43.76	20.41	17.69	10.45	8.36	7.07	7.19	7.38
Dividend	118.26	113.85	111.98	110.84	110.25	110.25	82.69	82.69	82.69	82.69
Cash dividend per share	3.22	3.10	3.05	3.02	3.00	3.00	2.25	2.25	2.25	2.25
Dividend Yield	1.84%	2.45%	1.57%	3.64%	4.47%	7.99%	10.30%	12.50%	12.57%	12.57%
Dividend payout ratio	56.66%	61.29%	68.50%	74.19%	79.16%	83.52%	86.11%	88.37%	90.33%	92.78%
Return on capital employed	33.54%	15.36%	15.71%	21.09%	27.26%	23.23%	17.37%	28.71%	26.04%	21.79%
Debt : Equity ratio	00:100	04 : 96	11 : 89	19 : 81	29 : 71	42 : 58	43 : 57	08 : 92	23 : 77	34 : 66
Liquidity ratio	1.19:1	1.16:1	1.19:1	1.29:1	1.21:1	1.12:1	1.06:1	1.04:1	1.06:1	1.06:1
Debt service ratio	3.17:1	2.32 : 1	2.96 : 1	3.7 : 1	5.9 : 1	3.0 : 1	1.7 : 1	1.8 : 1	1.6 : 1	1.5 : 1
NATURAL GAS										
Development & production leases (sq. kilometers)	969.3	969.3	969.3	969.3	969.3	969.3	969.3	969.3	969.3	969.3
Ultimate recovery of proved reserves (BSCF)	6,800.0	6,800.0	6,800	6,309	6,309	6,309	6,309	6,309	6,309	6,309
Cumulative production (BSCF)	3,301.1	3,128.6	2,958	2,795	2,636	2,480	2,330	2,182	2,035	1,895
Number of producing wells	86	84	83	77	64	64	64	64	64	64
Production (BSCF)	172.5	171.0	162	159	156	150	148	147	140	137
Daily average (BSCF)	0.473	0.469	0.445	0.434	0.428	0.411	0.405	0.402	0.383	0.375

Pattern of Shareholding

as at June 30, 2007

No. of Shareholders	Shareholding			Total shares held
425	1	TO	100	19,246
591	101	TO	500	190,454
456	501	TO	1,000	302,650
236	1,001	TO	5,000	584,375
44	5,001	TO	10,000	339,712
58	10,001	AND ABOVE		35,313,563
1,810				36,750,000

Categories of Shareholders as at June 30, 2007

Categories of Shareholders	Number	Shares held	Percentage
NIT & ICP			
National Bank of Pakistan- Trustee Department-NIT	1	3,013,250	8.20
Investment Corporation of Pakistan	1	2,800	0.01
Directors, Chief Executive Officer and their spouse and minor children			
Mr. Abdus Sattar - Director representing General Public	1	500	0.00
Executives	11	10,125	0.03
Banks, DFIs, NBFIs, Insurance Companies, Modarabas & Mutual Funds	8	616,950	1.68
Joint Stock Companies	45	107,922	0.29
Individuals	1,726	3,294,378	8.96
Shareholders holding ten percent or more voting interest in the Company			
Fauji Foundation	1	14,700,000	40.00
Government of Pakistan	1	7,350,000	20.00
Oil & Gas Development Company Limited	1	7,350,000	20.00
Others	14	304,075	0.83
	1,810	36,750,000	100.00

Committees of the Board of Directors

Raising the Bar of Accountability

The Board of Directors of Mari Gas Company Limited is entrusted with the task of overseeing the efficient and responsible use of shareholders' funds. In the interest of smooth functioning, the Board of MGCL is divided into three (3) sub-committees. These sub-committees are entrusted with the task of ensuring speedy management decisions.

AUDIT COMMITTEE

The Board of Mari Gas Company Limited, in compliance with the Code of Corporate Governance has established an Audit Committee comprising of the following members:

Mr. Qaiser Javed	President
Mr. Muhammad Razi Abbas	Member
Mr. Tahir Azizuddin	Member
Mr. Muhammad Riaz Khan	Member
Mr. Zahid Hussain	Member

The terms of reference of the Audit Committee include the following:

(a) Determination of appropriate measures to safeguard the Company's assets;

(b) Review of preliminary announcements of results prior to publication;

(c) Review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:

- major judgmental areas;
- significant adjustments resulting from the audit;
- the going-concern assumption;
- any changes in accounting policies and practices;
- compliance with applicable accounting standards; and
- compliance with listing regulations and other statutory and regulatory requirements.

(d) Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

(e) Review of management letter issued by external auditors and management's response thereto;

(f) Ensuring coordination between the internal and external auditors of the Company;

(g) Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

(h) Consideration of major findings of internal investigations and management's response thereto;

(i) Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

(j) Review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;

(k) Instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

(l) Determination of compliance with relevant statutory requirements;

(m) Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

(n) Consideration of any other issue or matter as may be assigned by the Board of Directors from time to time.

In addition to the above the Board has also established following committees.

TECHNICAL COMMITTEE

Brig Rahat Khan (Retd)	President
Mr. Shaukat Hayat Durrani	Member
Mr. Mohammad Naeem Malik	Member
Mr. Abdus Sattar	Member
Dr. Nadeem Inayat	Member

HUMAN RESOURCE COMMITTEE

Brig Arif Rasul Qureshi (Retd)	President
Mr. Shaukat Hayat Durrani	Member
Mr. Arshad Nasar	Member
Mr. Abdus Sattar	Member
Dr. Nadeem Inayat	Member

History of Company's

Exploration Business and its Future Vision

Mari Gas Company Limited is one of the largest national oil & gas exploration & production companies in Pakistan.

The Company's Habib Rahi gas reserve base which is its mainstay, was discovered by the Company when it was Esso Eastern Inc. in 1957.

All later significant discoveries till 2001 which added to its reserve base were limited to its Mari Gas Field Lease. In order to give life to the Company beyond Mari D&P Lease's reserves, the Company embarked upon an extensive and vigorous exploration programme. Initially it participated as a Joint Venture in existing blocks and later on, carved-out blocks as an operator. Over a period of about six years, the Company has acquired several exploration blocks/licenses as an operator and joint venture partner. It has since been aggressively pursuing prospects through out the country.

With the view of contributing significantly to the national economy, MGCL initiated with an aggressive & vigorous plan for exploration. Currently, it has an exploration portfolio of 7 operated and 7 non-operated exploration blocks located in four provinces of the country, while 5 applications are pending for bidding in DGPC. During this process, it has developed a formidable data base and an experience track covering all the sedimentary basins of the country. It is worth noticing that 7 operated blocks were carved out / evaluated in-house before participating in the bidding. The Company, already a major gas producer since 1967 has now become a significant and a competitive local player in the Country's exploration sector as well. The exploration segment of the Company's activities stands integrated as the Company's core function for enhancing its reserve base and consequently its business & life.

In a very short span of four years, the Company has made the first ever discovery in Pirkoh Limestone in Pakistan & Sui Main Limestone in Mari D & P Lease area during 2004. The Company also successfully drilled & tested for extension of discovery in Lower Goru B sand reservoir. To cater the hydrocarbon demand of the Country, Company has provided a breeding space to the remote areas of Baluchistan region where exploration was never carried out seriously in the past. It was a daring step on the part of MGCL to move in the area exploring not only the new Hydrocarbon reserves, but developing the barren land all together from scratch. This encouraging initiative helped greatly in finding solutions to the problem/difficulties in bringing remote/marginal fields such as Zarghun to reality in recent times. In its quest for searching for reasonable prospects, by the grace of Allah, exploratory well Ziarat # 1 has commercially tested gas. Efforts are also made to enhance the reserve by drilling of two more wells in Ziarat Block.

The Company has in place a high end development exploration and production capabilities equipped with internationally comparable state of art hardware/software technologies and are manned by professionals in geological, geophysical and petrophysical expertise.

The Company's exploration acreage currently covers Bannu - Kohat - Potwar Basin in the North, Lower Indus Basin in the South and Suleman/Kirthar Basin in the West. This success is very aggressive on the part of Mari Gas Company in the indigenous exploration trend of recent times in Pakistan. Hence, the Company is venturing into the gas prone areas which although have a long term gestation period, but is becoming the more domineering energy source of the future. The targeted reserves for all of the seven operated & non operated blocks are about 9 TCF and Mari Gas Company's share on reservoirs for these blocks is around 4 TCF.

Owing to the past, success trend and future exploration potential, almost all the indigenous low risk prospects seems to have been exploited/ explored. Therefore, with local discoveries having become scarce, potentials of future prospects becoming slimmer & consequently the cost of finding hydrocarbons increasing exponentially, the Company has adopted an aggressive strategy to go overseas and acquire E&P interests in highly prospective yet less competitive regions of the world.

Considering this tight competition, the present forecasted high oil price scenario & favorable/attractive overseas E&P prospect and investment opportunities, various international regions have been evaluated.

Nonetheless, detail review of certain overseas hydrocarbon rich areas for farm-in opportunities has resulted in the pursuit of business negotiations in progress. We at Mari Gas see a very bright future, helping the nation decrease the energy shortages to a minimum level, because future belongs to those who dare.

IMS Certification

Another history marked and another milestone achieved – Amidst other accomplishments in Company's exploration and operations activities in year 2006-07, Mari Gas Company Limited successfully achieved three international standard certifications for its Integrated Management System (IMS) comprising of ISO Quality Management System (9001:2000), ISO Environmental Management System (14001:2004) and Occupational Health and Safety Management System OHSAS (18001:1999). These certifications were awarded by SGS Pakistan Limited which is world leading inspection, verification and certification company.

MGCL is the first E & P Company in Pakistan simultaneously achieving three international certifications that manifests the Company's relentless efforts and sheer determination towards the continual improvement of all its systems, technical functions, customer satisfaction, product and process trends and HSE management. Being an IMS certified company MGCL is now known to be more progressive entity, which is compliant with international standards, resultantly, bringing it at par with international companies and imparting a cutting-edge benefit of making its systems more credible and well-founded. But, this eminent success story is characterized by employees' determination, hard work and continued Management support in form of provision of infrastructure, resources, effective strategic planning and decision-making that bore fruits.

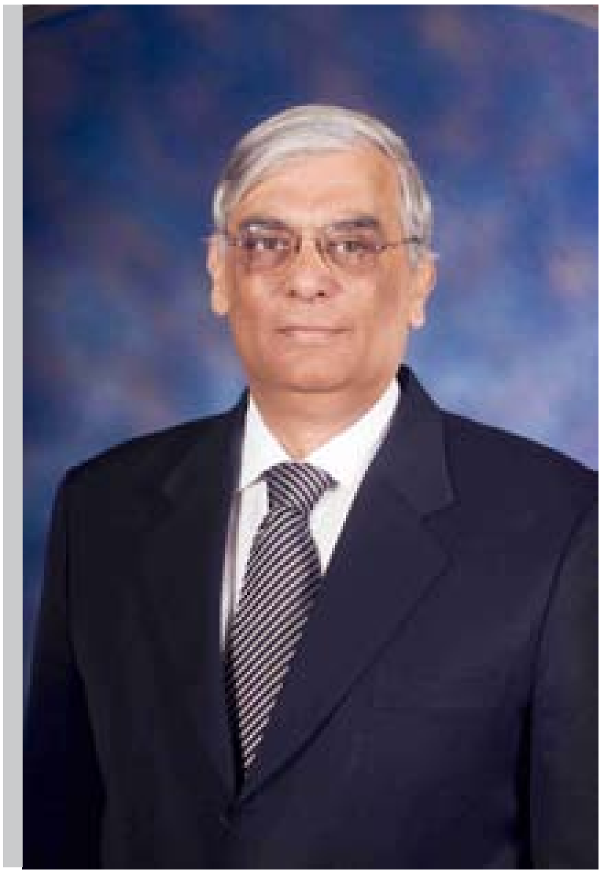
IMS Certification process involved number of activities ranging from redesigning the prevalent system, effective and standardized documentation, streamlining the operational and administrative practices, improvement in support systems and procedures, adapting environmental-friendly processes in its business operations and ensuring the provision of adequate health and safety environment at all premises, in general. Company, departmental and personal objectives were rejuvenated and all the efforts were exercised to imbue the staff with enhanced motivational level towards the achievement of set targets and standards through proper planning and decision making at all functional levels. In pursuit of achieving its targets 265 Management System Procedures (MSPs), more than 300 Management System Forms (MSFs), 40 Management System Instructions (MSIs) and 9 Emergency Preparedness Plans (EPPs) were prepared as part of improved documentation system. In addition to that a rigorous exercise of performing number of internal audits for compliance and controls, risk assessment and HSE management and performance monitoring were carried out to complement the endeavor of achieving this target.

Company has also demonstrated its absolute commitment in unequivocal words through establishment and promulgation of IMS policy, for meeting the requirements of IMS for quality, environment, occupational health and safety standards and maintaining the overall effectiveness by complying with all the regulations and adopting all the possible means to ensure the adoption of best HSE practices and environment safe processes.

At MGCL we believe that essence of true achievement is not about ending up with mere celebrations but to strive hard for achieving better than before.

This is where we reign...

Directors' Report



The Directors take pleasure in presenting their report together with the audited financial statements of the Company and the Auditors' report thereon for the year ended June 30, 2007.

Financial Results

The profit and appropriations for the year are as follows:

	Rs ' 000
Profit	
Profit after taxation	683,885
Un-appropriated profit brought forward	2,037,839
	2,721,724
Appropriations	
First interim dividend @ 22% per share declared in February 2007	80,850
Second interim dividend @ 10.18% per share declared in June 2007	37,412
Total dividend for the year	118,262
	2,603,462
Transferred to Undistributed Percentage Return Reserve	89,792
Profit and loss carried forward	**2,513,670**

The directors have decided to retain Rs 89.792 million representing the balance of percentage return relating to the year ended June 30, 2007. Therefore, the aforesaid amount has been transferred to "Undistributed Percentage Return Reserve".

Gross sales for the year under review increased to Rs 22,211 million from Rs 19,652 million in 2005-06 (13% increase). Company's contribution to the Government Exchequer amounted to Rs 20,024 million against Rs 17,771 million last year. The operating expenses amounted to Rs 1,134 million against Rs 1,131 million last year, which were only 5.01% of the gross revenue (5.65% last year).

The rate of return to the shareholders for the year under the revised gas price formula has been increased proportionately to 32.38% against last year of 32.18% due to increase in production level.

Earning per share (EPS) on the basis of distributable profit increased to Rs 5.68 per share from Rs 5.06 per share last year. However, due to the limitation of Gas Price Agreement, EPS for the year increased to Rs 18.61 per share as compared to last year's Rs 5.15 per share.

Operations

The Company continued un-interrupted gas supply throughout the year under review to all its customers namely, Engro Chemical Pakistan Limited, Fauji Fertilizer Company Limited, Water and Power Development Authority (WAPDA) and Sui Southern Gas Company Limited. The cumulative gas produced during the year ended June 30, 2007 was 172,465 million standard cubic feet (MMSCF) as against 171,045 MMSCF during the corresponding year of 2005-06. The daily average gas production for the year was 473 MMSCF as compared to 469 MMSCF for the corresponding year as per the requirement/withdrawal of the customers.

Regular maintenance of gas gathering network and production facilities was carried out as per good gas field practices throughout the year and the production optimization plans were followed to avoid any water conning and loss in production through effective reservoir management.

FUTURE CHALLENGES

Reservoir Simulation Study of Mari Habib Rahi Formation

For better Reservoir Management, the up-dation of Reservoir Simulation Model incorporating the production history of 5-6 years is essential .The last reservoir study was conducted in the year 2000 and subsequent to this, 17 more development wells drilled in 2003 have been hooked up to the system.

Accordingly, M/s Petresim Integrated Technology of USA had been awarded the Reservoir Simulation Study after having followed the procurement procedure. The consultant has started work on the reservoir simulation study and is expected to be completed by December 2007.

GSAs with IPPs

Gas Sale Agreement has been finalized and initialed with Foundation Power Company Daharki Limited and the same has also been approved by the Oil and Gas Regulatory Authority (OGRA). Gas Sale Agreement with Star Power Generation Limited has also been finalized and initialed and sent to OGRA for approval. As soon as OGRA approves the GSA, it will be executed by the Parties.

Mari Deep Production Facilities

The delivery of critical items at site is expected in the later part of third quarter 2007. The construction contractor for wellhead surface facilities and gathering lines would be mobilized accordingly.

Drilling of three wells in Mari D&P Lease Area

Pre-spud activities for the drilling of three exploratory wells Bhittai, Qalandar and Witayo have been completed. The rig of M/s SAS (Pvt) Limited is selected for drilling of these wells. The first well i.e. Bhittai has been spud-in on 6th September 2007 whereas Qalandar & Witayo wells would be drilled back to back using the same rig.

Development of Zarghun Gas Field

Through process of tendering for Front End Engineering Design (FEED) study, five FEED consultancy firms were technically evaluated in light of TORs. After carrying out the technical and financial analysis, the job has been awarded to JGC-Descon.

The location of well Zarghun # 3 has been finalized after the interpretation of the newly re-processed 2D seismic data.

Exploration Activities

The Company's working interests share in onshore exploration licenses are as follows:

Sr. #	Name of Block	MGCL's Working Interest	Name of Operator
1	Ziarat Exploration License	60%	MGCL
2	Noor Exploration License	100%	MGCL
3	Karak Exploration License	100%	MGCL
4	Sukkur Exploration License	65%	MGCL
5	Hanna Exploration License	60%	MGCL
6	Harnai Exploration License	60%	MGCL
7	Sujawal Exploration License	100%	MGCL
8	Dadhar Exploration License	27.67%	PPL
9	Hala Exploration License	35%	PPL
10	Zamurdan Exploration License	20%	OGDCL
11	Kohlu Exploration License	30%	OGDCL
12	Kalchas Exploration License	20%	OGDCL
13	Kohat Exploration License	20%	TULLOW
14	Bannu West Exploration License	10%	TULLOW

Operated Blocks

The Company is planning to drill two wells (one appraisal and one exploratory) back to back in Ziarat Block during 4th quarter 2007/1st quarter 2008 to appraise the already discovered gas reserves and to know upside potential of the block.

The Company acquired 300 line km 2D seismic data in Karak Block. Presently, interpretation of 2D seismic data and G&G studies are in progress to finalize the location of the committed well. The assignment of 10% share in the block to Hycarbex is in progress.

Acquired 164 line km 2D seismic data in Noor Block which could not establish any viable prospect. Therefore, the Company intends to acquire additional seismic data to chase another lead before exercising the drill or drop option. The assignment of 50% share in the block to Tarim Resource is in progress.

The Company has acquired 460 line km 2D seismic data in Sukkur Block which will be followed by the drilling of two exploratory wells back to back during 4th quarter 2007/1st quarter 2008. The assignment of 15% share in the block to International Sovereign Energy is in progress.

Acquisition of 170 line km and 300 line km 2D seismic data is planned during 1st quarter 2008 in Hanna and Harnai blocks, respectively.

Reprocessing of about 550 line km of 2D seismic data in Sujawal Block is in progress at Spectrum Geopex, Cairo. The Company is also planning to acquire 200 Sq. km 3D seismic and 400 line km 2D seismic data during 1st quarter 2008. The assignment of 15% share in the block to International Sovereign Energy is in progress.

Non-Operated Blocks

Locations for two committed exploratory wells have been finalized in Kohat Block. The said wells will be drilled back to back during 4th quarter of 2007/1st quarter 2008.

Exploration Well Adam X-1 was drilled upto depth of 3,566 meters. As a result of Drill Stem Tests, the Lower zone of Lower Goru Formation flowed 12.5 million cubic feet per day gas and 41 barrels per day oil (condensate) whereas, the Upper zone of Lower Goru Formation flowed 14.9 million cubic feet per day gas and 1,269 barrel per day oil (condensate).

Kot Sarang Joint Venture spuded an exploratory well Sarang X-1 on June 29, 2006. The well was drilled up to depth of 4775m and was plugged & abandoned due to absence of hydrocarbons.

Directors' Report

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/out arrangements with other companies.

Directors

During the year under review the following directors vacated their positions from the Company's Board:

1. Brig. Aftab Ahmad (Retd)
2. Brig. Munawar Ahmed Rana (Retd)
3. Mr. Asif Bajwa
4. Mr. Mobassher A. Zafar
5. Mr. Tariq Iqbal Khan

These vacancies were filled by:

1. Brig. Rahat Khan (Retd)
2. Dr. Nadeem Inayat
3. Mr. Muhammad Razi Abbas
4. Mr. Tahir Azizuddin
5. Mr. Zahid Hussain

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.

Board Meetings

Five meetings of Board of Directors were held during the financial year 2006-07. The attendance of directors in the board meetings is as under:

Name of Directors	Meetings Attended
Lt. Gen Syed Arif Hasan (Retd)	5
Lt. Gen Imtiaz Shaheen (Retd)	5
Mr Qaiser Javed	5
Brig. Arif Rasul Qureshi (Retd)	5
Brig Rahat Khan (Retd)	5
Brig Aftab Ahmad (Retd)	–
Dr. Nadeem Inayat	5
Brig. Munawar Ahmed Rana (Retd)	–
Mr. Shaukat Hayat Durrani	4
Mr. Muhammad Naeem Malik	3
Mr. Muhammad Razi Abbas	1
Mr. Asif Bajwa	3
Mr Arshad Nasar	4
Mr. Muhammad Riaz Khan	5
Mr. Tahir Azizuddin	1
Mr. Mobassher A. Zafar	3
Mr Abdus Sattar	5
Mr. Zahid Hussain	1
Mr. Tariq Iqbal Khan	–

Auditors

The present auditors, Messrs Muhammad Yousuf Adil Saleem & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment as auditors of the Company.

Human Resources

The Company requires that all those who work for the organization observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the Company's Code of Ethics & Business Practices. In accordance with these high standards, the Company relies on disclosure process for staff to prevent actual or perceived conflicts of interest.

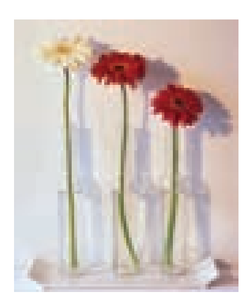
Relations between the management and the workers continued to be cordial and are expected to remain so in the future.

ISO Certifications

The Company has successfully achieved the Integrated Management System certifications, which consist of:

- ISO Quality Management Standard (9001:2000),
- ISO Environmental Management Standard (14001:2004)
- Occupational Health and Safety Management Standard OHSAS (18001:1999).

These certifications are the result of determined efforts of the Management to strengthen the systems according to recognised international management standards. Achieving the three certifications at a time was not easy task but the management and employees of the Company rose to the task to achieve the same.



Welfare Activities

a. Mobile Dispensaries

The existing three mobile dispensaries continued operating in the Mari D&P lease area. During the year, about 91,766 patients were treated and medicines were provided free of cost.

b. Mass Vaccination against Hepatitis "B"

Vaccination campaign against Hepatitis "B" phases I & II have been completed in UC Dad Leghari & Keenjhur, wherein 54,636 people were vaccinated. The third phase of vaccination to local population in Union Council Beruta is being carried out. First and second dozes of vaccination were dispensed to 22,462 people and vaccination of third/booster dose is in progress.

Shareholding

A statement showing the pattern of shareholding as at June 30, 2007 including details of trades carried out in the shares of the Company by a Director and company executives is attached.

Code of Corporate Governance

Securities & Exchange Commission of Pakistan (SECP) has formulated a Code of Corporate Governance to establish a framework of good corporate governance whereby every listed company is managed in compliance with best practices. This code was incorporated in the listing regulations of all the Stock Exchanges for the listed companies to implement thereon. The Directors of the Company hereby confirm the following as required by Clause (xix) of the Code issued by SECP:

a) The financial statements, prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
b) Proper books of account of the Company have been maintained.
c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
d) International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
e) The system of internal control is sound in design and has been effectively implemented and monitored.
f) There are no doubts about the Company's ability to continue as going concern.
g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
h) Key operating and financial data of last ten years is enclosed.
i) Value of investments including bank deposits, of various funds as at June 30, 2006, based on their respective audited financial statements, is as under:

Contributory provident fund	Rs	162.5	Million
Management staff gratuity fund	Rs	21.5	Million
Non-management staff gratuity fund	Rs	58.5	Million
Management staff pension fund	Rs	128.6	Million

j) All major Government levies as mentioned in Note 11 to the financial statements payable as at June 30, 2007 have been deposited subsequent to the year-end.

Compliance with the Code of Corporate Governance

Mari Gas Company Limited has made compliance with the Code of Corporate Governance during the year ended June 30, 2007. The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes 12 independent non-executive directors and two executive directors and two directors out of them represent minority shareholding.
2. The directors have confirmed that none of them is serving in more than ten listed companies.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock Exchange.
4. The casual vacancies occurred in the Board during the year ended June 30, 2007 were filled up within 30 days of occurrence.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed vision/mission statements and significant policies of the Company.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along-with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The appointments of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO have duly been approved by the Board.

10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CFO before the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises of five members including the President and all of them are non-executive directors.
15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
16. The Board has set-up an effective internal audit function and they are involved in the internal audit function on a full time basis.
17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan and that the firm and all its partners, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.
20. We confirm that all other material principals contained in the Code have been complied with.

Acknowledgement

The Board of Directors would like to express their appreciation for the efforts and dedication of all officers and staff of the Company including those in the field, which enabled the management to run the Company efficiently during the year resulting, inter alia, in continued production of gas at highly economical cost. The Board also wishes to express its appreciation for continued assistance and cooperation received from the local administration at Daharki, Government of Sindh, 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 Limited.

For and on behalf of the Board

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

Islamabad
September 26, 2007

Auditors' Report to the Members

We have audited the annexed balance sheet of Mari Gas Company Limited ("the Company") as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with notes forming part thereof, for the year then ended 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.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

The financial statements of the Company for the year ended June 30, 2006 were audited by another firm of Chartered Accountants whose audit report dated September 21, 2006 expressed an unqualified opinion.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of accounts 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 are in agreement with the books of accounts and are further in accordance with 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 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, 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, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

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

M. Yousuf Adil Saleem & Co
Chartered Accountants

Islamabad
September 26, 2007

Review Report to the Members

on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Mari Gas Company Limited ("the Company") to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Islamabad
September 26, 2007

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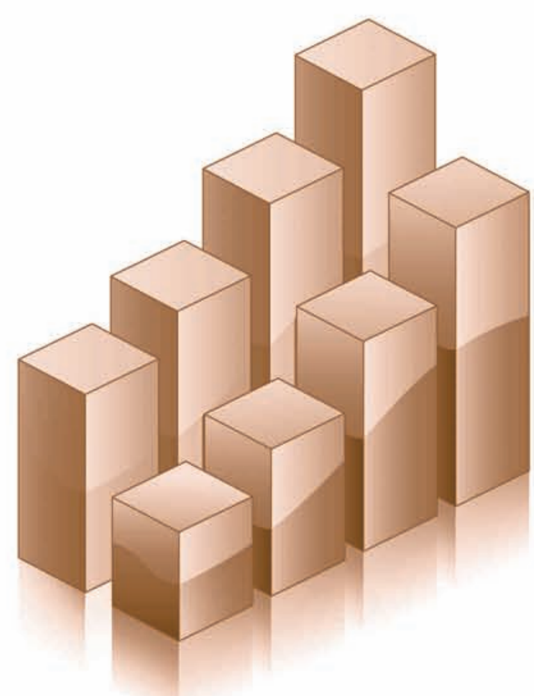
Financial Statements 2007



Balance Sheet

as at June 30, 2007

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

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

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

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director

Profit and Loss Account

for the year ended June 30, 2007

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

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

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director

Cash Flow Statement

for the year ended June 30, 2007

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

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

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director

Statement of Changes in Equity

for the year ended June 30, 2007

	Share Capital	General Reserve	Undistributed percentage return reserve	Profit and Loss Account	Total
			(Rupees in thousand)		
Balance as at July 01, 2005	367,500	2,046	207,749	2,029,955	2,607,250
Profit for the year	–	–	–	189,247	189,247
Dividends	–	–	–	(113,851)	(113,851)
Transferred to undistributed percentage return reserve	–	–	67,512	(67,512)	–
Balance as at June 30, 2006	367,500	2,046	275,261	2,037,839	2,682,646
Profit for the year	–	–	–	683,885	683,885
Dividends	–	–	–	(118,262)	(118,262)
Transferred to undistributed percentage return reserve	–	–	89,792	(89,792)	–
Balance as at June 30, 2007	367,500	2,046	365,053	2,513,670	3,248,269

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

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director

1. LEGAL STATUS AND OPERATIONS

Mari Gas Company Limited ("the Company") is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are listed on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Company is principally engaged in drilling, exploration, production and sale of natural gas. The gas price mechanism is governed by Mari Gas Well Head Price Agreement ("the Agreement") dated December 22, 1985 between the President of Islamic Republic of Pakistan and the Company. The registered office of the Company is situated at 21 Mauve Area, 3rd Road, G-10/4, Islamabad.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

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

2.2 SIGNIFICANT ESTIMATES

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

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

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

a) Estimation of natural gas reserves

Gas reserves are an important element in impairment testing for development and production assets of the Company. Estimates of natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including contract terms or development plans. Changes to the Company’s estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

b) **Provision for decommissioning cost**

Provision is recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amounts of provision are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of provision is regularly reviewed and adjusted to take account of such changes.

c) **Employees' retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in note - 32 to the financial statements for determination of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

d) **Income taxes**

In making the estimates of income taxes currently payable by the Company, the management looks at the income tax law applicable to the Company and the decisions of appellate authorities on certain issues in the past. This involves judgment on the future tax treatment of certain transactions. Deferred tax is recognized based on the expectation of the tax treatment of these transactions.

e) **Property, plant and equipment**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

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

3.2 Gas price mechanism

In terms of the Agreement, well head gas price for each ensuing year is determined in accordance with the principles of gas price formula set out in Article II of the Agreement. The Agreement states that the gas price will be at the minimum level to ensure that total revenues generated from sale of gas and other income are sufficient to provide a minimum return of 30%, net of all taxes, on Shareholders' Funds (as defined in the Agreement) after meeting specified ratios and deductibles. The return to shareholders shall be escalated in the event of increase in the Company's gas production beyond the level of 425 MMSCFD at the rate of 1%, net of all taxes, on Shareholders' Funds for each additional 20 MMSCFD of gas or equivalent oil produced, prorated for part thereof on annual basis, subject to a maximum of 45%. The minimum return to shareholders for the year was 32.38% (2006 : 32.18%).

Effective July 01, 2001, the Government has authorized the Company to incur expenditure not exceeding Rupee equivalent of US$ 20,000,000 per annum or 30% of the Company's annual gross sales revenue as disclosed in the last audited financial statements, whichever is less, in connection with exploration and development in any Concession area other than Mari Field, provided that if such exploration and development results in additional oil and gas production, the revenues generated from such additional oil or gas production shall be credited to and treated as revenue under the Agreement referred above.

3.3 Taxation

Provision for current taxation is based on taxable income at the applicable taxe rates. The Company accounts for deferred taxation on all timing differences, using the 'liability method' in respect of all major temporary differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of the taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent, it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax liability has been calculated at the estimated effective rate of 25% after taking into account the availability of depletion allowance.

3.4 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.5 Decommissioning cost

Estimated decommissioning and restoration cost, which are primarily in respect of abandonment and removal of wells and production facilities at Mari Field and the Company’s proportionate share in joint venture fields, are based on current requirements, technology and price levels and are stated at present value, and the associated asset retirement costs are capitalized as part of property, plant and equipment and amortized on unit of production basis over the total proved reserves of the relevant field. The liability is recognized once an obligation (whether legal or constructive) crystallizes in the period when a reasonable estimate of the fair value can be made; and a corresponding amount is recognized in property, plant and equipment. The present value is calculated using amounts discounted over the useful economic life of the reserves.

3.6 Employees' retirement benefits

The Company operates:

i) Defined benefit funded pension and gratuity plans for its management employees and defined benefit funded gratuity plan for its non-management employees. Contributions are made to these plans on the basis of actuarial recommendations. Actuarial valuations are conducted periodically using the Projected Unit Credit Method and the latest valuation was carried out as at June 30, 2007. The results of the valuation are summarized in note 32 to these financial statements. Rules of Management Staff Gratuity Fund have been amended with effect from July 01, 2006 which resulted in vested prior service cost of Rs 167.948 million, which has been recognized during the year. Actuarial gains and losses are amortized over the expected remaining service time of employees.

ii) Defined benefit unfunded pension plan for its non-management employees. Liability related to accumulated period of service of eligible employees is recognized based on actuarial valuation. The latest valuation was carried out as at June 30, 2007 using discount rate of 10% per annum and pension increase rate of 4% per annum.

iii) Defined contribution provident fund for its permanent employees for which contributions are charged to profit and loss account for the year. An amount of Rs 10.066 million (2006 : Rs 9.519 million) has been charged to profit and loss account during the year in respect of this plan using 10% per annum of the basic salary.

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

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

3.7 Property, plant and equipment

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

Depreciation on property, plant and equipment is charged to income using the straight line method at rates specified in note 13 to these financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives without taking into account any residual value. Amortization of drilling expenditure related to Mari Field is charged to income over a period of 10 years in line with the requirements of the Agreement. Acquisition cost of leases, where commercial reserves have been discovered, are capitalized and amortized on unit of production basis.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Gains and losses on disposals are credited or charged to income in the year of disposal. Maintenance and repairs are charged to income as and when incurred.

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

3.8 Intangible assets

Intangible assets are initially recorded at cost where it is probable that they will generate future economic benefits. Intangible assets include rights and concessions. Intangible assets are subsequently recognized at cost less accumulated amortization including any impairment. Rights and concessions are amortized on the unit of production basis over the total proved reserves of the relevant field.

3.9 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

3.10 Stores and spares

These are valued at the lower of cost and net realizable value less allowance for obsolete and slow moving items. Material in transit is valued at cost. Cost is determined on the moving average basis and comprises cost of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

3.11 Foreign currencies

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

3.12 Revenue recognition

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

3.13 Joint venture operations and exploration expenditure - other than Mari Field

Exploration expenditure incurred in concession areas other than Mari Field are expensed as incurred but are subsequently capitalized relating to any reserves of oil and gas that are discovered. Capitalized exploration and development costs are amortized on unit of production basis. Transactions related to joint venture operations in which the Company has a working interest are accounted for on the basis of latest available audited accounts of the joint venture and where applicable, the cost statements received from the operator of the joint venture, for the intervening period upto the balance sheet date.

3.14 Licence/lease acquisition costs

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

3.15 Borrowing cost

Borrowing cost is expensed as incurred.

3.16 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value. The Company derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instrument. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

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

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

3.17 Trade debts and other receivables

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

3.18 Cash and cash equivalents

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

3.19 Transactions with related parties

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

3.20 Offsetting

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

3.21 Operating leases

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

	Note	2007	2006
		(Rupees in thousand)	
4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
24,850,007 (2006 : 24,850,007) ordinary shares of Rs 10 each issued for cash		248,500	248,500
11,899,993 (2006 : 11,899,993) ordinary shares of Rs 10 each issued for consideration other than cash		119,000	119,000
		367,500	367,500
Major shareholding of the Company is as follows;		%age	%age
Fauji Foundation		40%	40%
Oil and Gas Development Company Limited		20%	20%
Government of Pakistan		20%	20%

5. GENERAL RESERVE

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

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

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

7. PROFIT AND LOSS ACCOUNT

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

7.1 Undistributable balance

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

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

Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
7.2 Distribtable balance			
Undistributed guaranteed return		8,746	8,012

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

8. LONG TERM FINANCING – SECURED

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

8.1 On September 15, 2000, the Company entered into an agreement with Habib Bank Limited for financing of its Goru–B Project on mark–up basis. The total amount disbursed is Rs 1,121 million with a corresponding "Marked–up Price" of Rs 2,125 million. The mark–up is payable quarterly on the basis of last successful auction of six months treasury bills cut–off yield plus 1.50% per annum. The effective mark–up rate during the year was 10.1845% (2006 : 9.667%) per annum. The loan is repayable in ten half–yearly installments commencing March 2003. The loan is secured by mortgage, hypothecation and floating charges created against all present and future assets of the Company.

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

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

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

12. CONTINGENCIES AND COMMITMENTS

12.1 In terms of Ministry of Petroleum and Natural Resources instructions through their letters DGO(AC)–5(50)/94–IA and DGO(AC)–5(50)/95 dated March 30, 1995 and October 01, 1996 respectively, the Company was advised that interest on delayed payments from Water and Power Development Authority (WAPDA) and interest on delayed payments of development surcharge to the Government be taken into account after it is actually received/paid.

Interest on delayed payment from WAPDA and interest on delayed payments of development surcharge to the Government of Pakistan at June 30, 2007 amounting to Rs 400.524 million (2006 : Rs 314.187 million) and Rs 112.392 million (2006 : Rs 112.392 million) respectively, which will be taken into account when it is actually received/paid. However, it does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Agreement.

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

13 Property, Plant and Equipment

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Roads & bridges	Drilling Tools and equipment	Equipment and general plant	Computers and allied equipment	Gathering lines	Furniture and fixtures	Vehicles heavy	Vehicles light	Drilling expenditure Mari field	Decomm-issioning cost Mari fields	Decomm-issioning cost Ziarat and Zarghum South fields	Capital works in progress (note 13.1)	Total
	(Rupees in thousand)																
Cost																	
Balance as at July 01, 2005	82,364	51,362	380,473	45,519	77,213	21,432	348,683	56,687	773,655	36,592	131,588	77,730	2,573,708	1,366,792	–	167,749	6,191,547
Additions during the year	61,274	–	24,299	–	20,105	–	30,293	1,290	4,408	5,648	14,458	15,635	8,519	–	38,027	130,214	354,170
Disposals	–	–	–	–	–	–	(5,692)	(504)	–	(154)	(19,824)	(5,901)	–	–	–	–	(32,075)
Adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	(110,338)	–	–	(110,338)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(185,929)	(185,929)
Balance as at June 30, 2006	143,638	51,362	404,772	45,519	97,318	21,432	373,284	57,473	778,063	42,086	126,222	87,464	2,582,227	1,256,454	38,027	112,034	6,217,375
Balance as at July 01, 2006	143,638	51,362	404,772	45,519	97,318	21,432	373,284	57,473	778,063	42,086	126,222	87,464	2,582,227	1,256,454	38,027	112,034	6,217,375
Additions during the year	8,431	–	33,659	–	5,039	348	30,633	5,042	10,270	3,179	14,667	7,285	73,365	–	–	598,392	790,310
Disposals	–	–	–	–	–	(21,454)	(7,739)	(5,508)	–	(1,645)	(161)	(1,362)	(80)	–	–	–	(37,949)
Adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	(106,486)	(4,531)	(1,572)	(112,589)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(191,918)	(191,918)
Balance as at June 30, 2007	152,069	51,362	438,431	45,519	102,357	326	396,178	57,007	788,333	43,620	140,728	93,387	2,655,512	1,149,968	33,496	516,936	6,665,229
Depreciation																	
Balance as at July 01, 2005	–	2,127	111,114	19,239	45,583	21,432	184,781	40,463	486,411	22,055	111,940	43,974	1,301,340	145,707	–	–	2,536,166
Depreciation for the year	–	959	19,723	2,275	5,760	–	28,219	8,404	39,042	3,391	12,514	15,760	212,937	37,597	–	–	386,581
On disposals	–	–	–	–	–	–	(4,037)	(504)	–	(139)	(19,824)	(5,901)		–	–	–	(30,405)
On transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance as at June 30, 2006	–	3,086	130,837	21,514	51,343	21,432	208,963	48,363	525,453	25,307	104,630	53,833	1,514,277	183,304	–	–	2,892,342
Balance as at July 01, 2006	–	3,086	130,837	21,514	51,343	21,432	208,963	48,363	525,453	25,307	104,630	53,833	1,514,277	183,304	–	–	2,892,342
Depreciation for the year	–	959	20,993	2,620	5,769	93	28,721	5,947	37,439	3,323	19,926	9,491	209,364	34,147	–	–	378,792
On disposals	–	–	–	–	–	(21,440)	(6,552)	(5,308)	–	(1,536)	(13)	(1,271)	(80)	–	–	–	(36,200)
On transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance as at June 30, 2007	–	4,045	151,830	24,134	57,112	85	231,132	49,002	562,892	27,094	124,543	62,053	1,723,561	217,451	–	–	3,234,934
Carrying amounts – 2006	143,638	48,276	273,935	24,005	45,975	–	164,321	9,110	252,610	16,779	21,592	33,631	1,067,950	1,073,150	38,027	112,034	3,325,033
Carrying amounts – 2007	152,069	47,317	286,601	21,385	45,245	241	165,046	8,005	225,441	16,526	16,185	31,334	931,951	932,517	33,496	516,936	3,430,295
Rates of depreciation	**–**	**1-3%**	**5%**	**5%**	**10%**	**20%**	**10%**	**25%**	**10%**	**10%**	**30%**	**20%**	**10%**	**Note 3.5**	**Note 3.5**		

Notes to the Financial Statements

for the year ended June 30, 2007

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

13.2 Details of assets disposed off during the year

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	(Rupees in thousand)					
Computer and allied equipment	180	101	79	–	Assets written off	–
	151	38	113	–	Assets written off	–
Vehicles	1,194	955	239	239	Through auction	Various
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees fifty thousand	36,424	35,106	1,318	981	As per Company policy	–
	37,949	36,200	1,749	1,220		

14. INTANGIBLE ASSETS

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

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

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

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

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

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

15.3 The loans and advances given to executives and employees represent transport loans and other advances repayable in 36 to 60 equal monthly installments. The loans and advances are interest free.

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

	Note	2007	2006
		(Rupees in thousand)	
18. STORES AND SPARES			
Stores	18.1	136,141	127,692
Spares		46,650	39,255
		182,791	166,947

18.1 These include stores valuing Rs 0.177 million (2006 : Rs 0.177 million) and Rs 2.441 million (2006: Rs Nil) representing the Company's share in the joint venture operated by ENI Pakistan Limited and Tullow Pakistan (Developments) Limited respectively.

19. TRADE DEBTS	Note	2007	2006
		(Rupees in thousand)	
Associated undertakings – considered good			
Water and Power Development Authority		945,156	679,979
Fauji Fertilizer Company Limited		392,055	379,262
Sui Southern Gas Company Limited		1,545	1,304
		1,338,756	1,060,545
Others – considered good			
Engro Chemical Pakistan Limited		117,969	151,424
		1,456,725	1,211,969

19.1 The maximum aggregate amount outstanding at the end of any month during the year from associated undertakings was Rs 1,750.062 million (2006 : Rs 1,113.085 million).

20. LOANS AND ADVANCES	Note	2007	2006
		(Rupees in thousand)	
Current portion of long term loans and advances – considered good	15		
– Executives		3,298	3,688
– Other employees		3,340	2,900
		6,638	6,588
Advances to suppliers and others		6,443	7,056
Advances to joint venture partners		304,737	96,693
WPPF paid in advance		73,948	–
Royalty paid in advance		109,833	96,932
		501,599	207,269
21. SHORT TERM PREPAYMENTS			
Insurance		–	17,559
Mining lease		2,904	2,921
Rent		244	366
Others		3,117	3,497
		6,265	24,343
22. OTHER RECEIVABLES			
General sales tax paid under protest		1,709	1,709
Receivable from Customs Authorities		365	365
Others		2,131	1,642
		4,205	3,716

Notes to the Financial Statements

	Note	2007	2006
		(Rupees in thousand)	
23. CASH AND CASH EQUIVALENTS			
Cash in hand		300	300
Balances with banks on:			
Deposit accounts		2,824,168	3,161,962
Current accounts (including US$ 6 thousand, 2006 : US$ 6 thousand)		4,741	3,049
		2,828,909	3,165,011
		2,829,209	3,165,311

	Note	2007	2006
24. OPERATING EXPENSES			
Salaries, wages and benefits		366,651	324,160
Employee retirement benefits	24.1	42,823	55,965
Rent, rates and taxes		5,026	8,800
Legal and professional services		15,270	6,767
Fuel, light, power and water		34,487	41,022
Maintenance and repairs		49,508	53,561
Insurance		36,098	32,103
Depreciation and amortization		379,993	387,771
Employees medical and welfare		52,251	47,518
Security and other services		107,625	90,562
Traveling		10,422	7,981
Communications		6,996	7,382
Office supplies		8,610	13,656
Technical software		9,025	2,647
Auditors' remuneration	24.2	764	715
Stores and spares consumed		33,016	33,999
Donations	24.3	–	20,524
Mobile dispensary and social welfare		26,929	36,262
Training		15,921	14,542
Habib Rahi reservoir study		5,534	–
Advertisement		3,398	2,014
Books and periodicals		482	719
Miscellaneous		7,040	6,514
		1,217,869	1,195,184
Less: Recoveries from joint ventures		84,311	63,737
		1,133,558	1,131,447

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

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

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

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

Notes to the Financial Statements

for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
27. OTHER CHARGES			
Workers' Profits Participation Fund		75,513	33,303
Workers' Welfare Fund		52,604	30,115
		128,117	63,418
28. OTHER INCOME			
Income from financial assets			
Income on bank deposits		436,726	336,681
Income from non financial assets			
(Loss)/gain on sale of property, plant and equipment		(529)	13,622
Liquidated damages/minimum billing to a customer		–	12,751
Miscellaneous		485	3,169
		(44)	29,542
		436,682	366,223
29. TAXATION			
Provision for taxation			
Current		902,166	516,472
Deferred		(203,907)	(103,081)
		698,259	413,391

	2007	2006
29.1 RECONCILIATION OF EFFECTIVE TAX RATE	%	%
Applicable tax rate	35.00	35.00
Effect of:		
Amounts not deductible for tax purposes	23.62	49.42
Origination and reversal of temporary differences	5.87	8.67
Depletion allowance	(13.97)	(24.49)
Aggregate effective tax rate charged to income	50.52	68.60

	2007	2006
	(Rupees in thousand)	
30. EARNINGS PER SHARE – BASIC AND DILUTIVE		
Profit for the year	683,885	189,247
Undistributable profit as explained in note 7	475,097	3,473
Balance distributable profit after tax	208,788	185,774
Number of shares outstanding (in thousand)	36,750	36,750
Earnings per share on the basis of distributable profits (Rupees)	5.68	5.06
Earnings per share on the basis of profit and loss account (Rupees)	18.61	5.15

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

	Note	2007	2006
		(Rupees in thousand)	
31. CASH GENERATED FROM OPERATIONS			
Profit before taxation		1,382,144	602,638
Adjustments for:			
Depreciation and amortization		379,993	387,771
Loss/(gain) on disposal of property, plant and equipment		529	(13,622)
Employees' retirement benefits – unfunded		(19,704)	11,234
Interest income		(436,726)	(336,681)
Finance cost		163,898	44,258
Working capital changes	31.1	(504,455)	(126,711)
		965,679	568,887

31.1 Working capital changes

	2007	2006
(Increase)/decrease in current assets		
Stores and spares	(15,844)	(13,148)
Trade debts	(244,756)	(278,167)
Loans and advances	(294,330)	(113,284)
Short term prepayments	18,078	(1,610)
Other receivables	(489)	2,189
	(537,341)	(404,020)
Increase in accrued and other liabilities	32,886	277,309
	(504,455)	(126,711)

Notes to the Financial Statements

for the year ended June 30, 2007

32. EMPLOYEES RETIREMMENT BENEFITS

32.1 Funded retirement benefits

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

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

32.2 Un-funded retirement benefits

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

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

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

33. FINANCIAL INSTRUMENTS

33.1 Financial assets and liabilities:

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

33.2 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and balances with banks. Credit risk on liquid funds is limited because the counter parties are banks with reasonable high credit ratings. The Company has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of financial assets amounting to Rs. 4,327 million (2006: Rs 4,426 million), financial assets which are subject to credit risk amount to Rs 4,319 million (2006: Rs 4,423 million). To manage exposure to credit risk, the Company applies credit limits to its customers. Trade debts are essentially due from fertilizer companies, power generation company and gas distribution company and the Company does not expect these companies to fail in meeting their obligations.

33.3 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and take appropriate measures for new requirements.

33.4 Currency risk

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

33.5 Fair value of financial assets and liabilities

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

34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

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

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

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

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

35. CAPACITY AND ACTUAL PRODUCTION

Considering the nature of the Company's business, information regarding capacity has no relevance. The actual production of gas for the year ended June 30, 2007 was 172.465 BSCF (2006 : 171.045 BSCF).

36. TRANSACTIONS WITH RELATED PARTIES

Fauji Foundation holds 40% shares of the Company, therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. Other related parties comprise of associated companies, directors, major shareholders, key management personnel and employees' retirement benefit funds and exclude relationship with the Government being a shareholder in the Company. Transactions with related parties other than remuneration and benefits to directors and key management personnel are as follows:

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

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

37. NUMBER OF EMPLOYEES

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

38. CORRESPONDING FIGURES

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

39. GENERAL

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

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

Lt Gen Imtiaz Shaheen (Retd)
Chief Executive

Qaiser Javed
Director

Notes

Proxy Form

The Company Secretary
Mari Gas Company Limited
21-Mauve Area, 3rd Road,
G-10/4, P.O. Box No. 1614,
Islamabad

I/We, the undersigned, being a member(s) of Mari Gas Company Limited and holder of ______________ Ordinary Shares, hereby appoint ______________
____

of ______________
____

whom failing ______________
of ______________
as my/our proxy to vote and act for me/our behalf, at the 23rd Annual General Meeting of the Company, to be held on October 23, 2007 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this ______ day of ______ 2007.

____
Signature of the Shareholder

____
Signature of Proxy

____
Name in Block Letters
Folio/CDC Ref: ______________

Note:

1. This instrument appointing a proxy, duly completed, in order to be effective, must be received at the Registered Office of the Company at 21-Mauve Area, 3rd Road, Sector G-10/4, Islamabad not less than 48 hours before the time of holding of Meeting.

2. A member who has deposited shares into Central Depository Company of Pakistan Limited, must bring participant's ID Number and Account/Sub-Account Number alongwith original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting for the purpose of identification.

3. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.

Witnesses:

1. ______________
____
____

2. ______________
____
____

AFFIX
CORRECT
POSTAGE

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

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MGCL

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