Financial Statements 2008

MGCL

Balance Sheet

as at June 30, 2008

	Note	2008	(Restated) 2007
		(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	483,148	365,053
Exploration and evaluation reserve	7	1,195,106	509,346
Profit and loss account	8	4,151,230	2,513,670
		6,199,030	3,757,615
NON-CURRENT LIABILITIES			
Long term financing - secured	9	500,000	–
Provision for decommissioning cost	10	1,588,162	1,307,728
Deferred liabilities			
Employee benefits - unfunded	11	55,634	49,940
Deferred income		–	3,929
		55,634	53,869
		2,143,796	1,361,597
CURRENT LIABILITIES			
Current maturity of long term financing - secured	9	–	112,100
Accrued and other liabilities	12	2,993,561	3,226,971
Provision for taxation - net	13	1,254,514	722,522
		4,248,075	4,061,593
CONTINGENCIES AND COMMITMENTS	14		
		12,590,901	9,180,805

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lt Gen Mushtaq Hussain HI(M) (Retd)
Chief Executive

	Note	2008	(Restated) 2007
		(Rupees in thousand)	
NON-CURRENT ASSETS			
FIXED ASSETS			
Tangible			
Property, plant and equipment	15	3,458,188	1,575,392
Intangible			
Development and production assets	16	2,117,261	1,923,961
Exploration and evaluation assets	17	1,195,106	509,346
		3,312,367	2,433,307
Long term loans and advances	18	2,574	3,162
Long term deposits and prepayments	19	6,820	8,747
Deferred taxation	20	701,260	155,987
		7,481,209	4,176,595
CURRENT ASSETS			
Stores and spares	21	184,623	182,791
Trade debts	22	2,374,041	1,456,725
Loans and advances	23	310,427	501,599
Short term prepayments	24	9,141	6,265
Interest accrued		12,235	23,416
Other receivables	25	4,614	4,205
Cash and cash equivalents	26	2,214,611	2,829,209
		5,109,692	5,004,210
		12,590,901	9,180,805

Qaiser Javed
Director

Profit and Loss Account

for the year ended June 30, 2008

	Note	2008	2007
		(Rupees in thousand)	
Gross sales to customers		21,557,562	22,205,377
Own consumption		8,751	5,706
		21,566,313	22,211,083
Gas development surcharge		11,059,767	14,059,151
General sales tax		2,812,040	2,898,055
Excise duty		641,734	644,236
Adjustment/surplus payable to the President of Pakistan as per the Agreement		355,571	932,630
		14,869,112	18,534,072
Sales - net		6,697,201	3,677,011
Royalty		837,150	459,626
		5,860,051	3,217,385
Operating expenses	27	1,286,710	1,133,558
Exploration and prospecting expenditure	28	461,240	846,350
		1,747,950	1,979,908
Operating profit		4,112,101	1,237,477
Finance cost	29	187,863	163,898
Other charges	30	341,589	128,117
		529,452	292,015
		3,582,649	945,462
Other income	31	377,656	436,682
Profit before taxation		3,960,305	1,382,144
Taxation	32	1,399,893	698,259
Profit for the year		2,560,412	683,885
Profit for the year represents the following:			
Distributable profits		236,320	208,788
Exploration and evaluation reserve	7	685,760	–
Profit and loss account - undistributable balance	8.1	1,638,332	475,097
		2,560,412	683,885
Earnings per share - basic and dilutive			
Earnings per share on the basis of distributable profits (Rupees)	33	6.43	5.68
Earnings per share on the basis of profit and loss account (Rupees)	33	69.67	18.61

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lt Gen Mushtaq Hussain HI(M) (Retd)
Chief Executive

Qaiser Javed
Director

Cash Flow Statement

for the year ended June 30, 2008

	Note	2008	(Restated) 2007
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	34	3,185,126	965,679
Decrease in long term loans and advances		588	2,664
Decrease / (increase) in long term deposits and prepayments		1,927	(4,552)
Deferred income		(3,929)	3,929
Employee benefits paid - unfunded		(1,544)	(4,242)
Taxes paid		(1,413,175)	(768,849)
Net cash from operating activities		1,768,993	194,629
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,331,832)	(585,840)
Development and production assets		(7,584)	(10,980)
Exploration and evaluation assets		(685,760)	–
Proceeds from disposal of property, plant and equipment		19,253	1,220
Interest received		357,163	446,390
Net cash used in investing activities		(2,648,760)	(149,210)
Cash flows from financing activities			
Repayment of long term financing		(112,100)	(224,200)
Proceeds from long term financing		500,000	–
Finance cost paid		(3,986)	(40,174)
Dividends paid		(118,745)	(117,147)
Net cash from / (used in) financing activities		265,169	(381,521)
Decrease in cash and cash equivalents		(614,598)	(336,102)
Cash and cash equivalents at beginning of year		2,829,209	3,165,311
Cash and cash equivalents at end of year	26	2,214,611	2,829,209

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lt Gen Mushtaq Hussain HI(M) (Retd)
Chief Executive

Qaiser Javed
Director

Statement of Changes in Equity

for the year ended June 30, 2008

	Share capital	General reserve	Undistributed percentage return reserve	Exploration and evaluation reserve	Profit and loss account	Total
			(Rupees in thousand)			
Balance as at July 01,2007 as previously stated	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)
Undistributed percentage return reserve	–	–	89,792	–	(89,792)	–
Effect of change in accounting policy as referred in note 2.2	–	–	–	509,346	–	509,346
Balance as at July 01, 2007 as restated	367,500	2,046	365,053	509,346	2,513,670	3,757,615
Profit for the year	–	–	–	–	2,560,412	2,560,412
Dividends	–	–	–	–	(118,997)	(118,997)
Undistributed percentage return reserve	–	–	118,095	–	(118,095)	–
Exploration and evaluation reserve	–	–	–	685,760	(685,760)	–
Balance as at June 30, 2008	367,500	2,046	483,148	1,195,106	4,151,230	6,199,030

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lt Gen Mushtaq Hussain HI(M) (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 on December 22, 1985 under the Companies Ordinance, 1984. The shares of the Company are listed on the Karachi, Lahore and Islamabad stock exchanges in 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 Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are 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 that of the said directives take precedence.

2.2 ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

During current year, the Company has adopted all new Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and as are notified by under the provisions of the Companies Ordinance, 1984 that are relevant to its operations and effective for the Company's accounting period beginning on July 01, 2007. The adoption of these new Standards and Interpretations has resulted in changes to the Company's accounting policies in the following area:

- IFRS - 6 Explorations for and Evaluation of Mineral Resources

The financial impact of the change in accounting policies due to recognition, measurement and presentation of exploration and evaluation assets is discussed as follows:

IFRS 6 "Exploration for and Evaluation of Mineral Resources" requires the recognition of exploration and evaluation assets and to assess such assets for impairment in accordance with this IFRS and disclose and explain the amounts in the Company's financial statements arising from the exploration for and evaluation of mineral resources.

The financial impact of the change amounts to Rs. 183.994 million for year ended June 30, 2007 and Rs. 325.352 million for prior years after netting off the cost of dry and abandoned wells amounting to Rs. 254.570 million relating to year 2007 and Rs. 895.341 million prior years respectively. However, it does not affect the guaranteed return to its shareholders

2.3 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRSs 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 amounts 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 IFRSs 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 these 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 changes. 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) Employee benefits

Certain actuarial assumptions have been adopted as disclosed in note - 35 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 the unrecognized gains and losses in those years.

d) Income taxes

In making the estimates of income taxes currently payable by the Company, the management takes into account 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, if any.

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 employee 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 is to 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 32.17% (2007 : 32.38%).

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 gas or equivalent oil production, the revenues generated from such additional gas or equivalent oil production shall be credited to and treated as revenue under the Agreement referred to above.

3.3 Taxation

Provision for current taxation is based on taxable income at the applicable tax rates. The Company accounts for deferred taxation on all timing differences, using the 'liability method' in respect of all major temporary differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of the taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent, it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred taxation has been calculated at the estimated effective tax rate of 35% 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 costs, 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 development and production assets 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 and development and production assets.

The present value is calculated using amounts discounted over the useful economic life of the reserves. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustments to property, plant and equipment and development and production assets. The unwinding of discount on decommissioning provision is recognized as finance cost.

3.6 Employee 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, 2008. The results of the valuation are summarized in note 35 to these financial statements. Actuarial gains and losses in excess of corridor limit (10 percent of the higher of fair value of plan assets and present value of obligations) are recognized over the expected remaining working lives of the 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, 2008 using discount rate of 11% per annum and pension increase rate of 6% per annum.

iii) Defined contribution provident fund for its permanent employees for which contributions are charged to profit and loss account for the year. The contributions to the fund are made by the Company at the rate of 10% per annum of the basic salary.

iv) The Company has accrued post retirement medical benefits of its current management employees based on actuarial valuation as at June 30, 2008 using discount rate of 11% per annum and increase in cost of medical benefits of 8% per annum.

v) The Company has accrued post retirement leave benefits of its management employees based on actuarial valuation carried out as at June 30, 2008 using discount rate of 11% per annum and salary increase rate of 11% per annum.

3.7 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land 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 to these financial statements.

Depreciation on property, plant and equipment is charged to income using the straight line method at rates specified in note 15 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.

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.

Subsequent costs are included in the assets' carrying amounts when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Carrying amount of parts so replaced, if any is derecognized. All other repairs and maintenance are charged to income as and when incurred. Gains and losses on disposals are credited or charged to income in the year of disposal.

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

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.

3.8 Exploration and evaluation assets

The Company applies the “successful efforts” method of accounting for Exploration and Evaluation (E&E) expenditures. Under this method of accounting, exploratory/evaluation drilling expenditures are initially capitalized as intangible E&E assets in cost centers by well, field or exploration area, as appropriate, till such time that technical feasibility and commercial viability of extracting gas and oil are demonstrate.

Major costs capitalized include material, chemical, fuel, well services rig costs and any other cost directly attributable to a particular well. All other exploration costs including cost of technical studies, seismic acquisition and processing, geological and geophysical activities are charged currently against income as exploration and prospecting expenditure. Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the profit and loss account as and when incurred.

Tangible assets used in E&E activities other than stores held, include the Company’s vehicles, drilling rigs and other property, plant and equipment used by the Company’s exploration function and are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible E&E asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is then reclassified as development and production assets and if commercial reserves have not been found, the capitalized costs are written off as dry hole costs.

Intangible E&E assets are not amortized prior to the conclusion of appraisal activities.

Intangible E&E assets are assessed for impairment when facts and circumstances indicate that carrying amounts may exceed the recoverable amounts of these assets. Such indicators include, the point at which a determination is made as to whether or not commercial reserves exist, the period for which the Company has right to explore has either expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event, that may give rise to indication that such assets are impaired.

3.9 Development and production assets

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in note 3.8 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning. Development and production assets are amortized from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the year to the estimated quantities of commercial reserves at the end of the year plus the production during the year.

Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively. However amortization of drilling expenditure related to wholly owned 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.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amounts of the development and production assets may exceed their recoverable amount. Such circumstances depend on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, the production costs, the contractual duration of the production concession and the net selling price of the hydrocarbons produced.

The carrying amounts are compared against expected recoverable amounts of the oil and gas assets, generally by reference to the present value of the future net cash flows expected to be derived from such assets. The cash generating unit applied for impairment test purpose is generally on field-by-field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

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 items to their present location and condition. Net realizable value signifies the 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

Pakistan rupee is the functional as well as reporting currency of the Company. 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

Revenue from sale of gas is recognized on delivery of gas to customers. Income from bank deposits is recognized proportionately by reference to the principal outstanding and the applicable rate of return.

3.13 Borrowing cost

All borrowing costs are recognized in profit and loss account as and when incurred.

3.14 Joint venture operations

The Company has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participants in such a way that the operation itself has no significant independence to pursue its commercial strategy. These arrangements do not constitute a joint venture entity due to the fact that financial and operational policies of such joint ventures are those of the participants. The financial statements of the Company include its share of assets, liabilities and expenses in such joint ventures which is pro rata to the Company's interest in the joint venture operations.

The Company's share of assets, liabilities and expenses in joint venture operations is recognized on the basis of latest available audited financial statements of the joint ventures and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date.

3.15 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.

3.16 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.

3.17 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 and include short term highly liquid investments that are readily convertible to the known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in balance sheet at cost except for foreign currency deposits which are carried at fair value.

3.19 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received.

3.20 Dividend

Dividend is recognized as a liability in the period in which it is declared.

3.21 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.

3.22 Operating leases

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

	Note	2008	2007
		(Rupees in thousand)	
4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
24,850,007 (2007 : 24,850,007) ordinary shares of Rs. 10 each issued for cash		248,500	248,500
11,899,993 (2007 : 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	2008	2007
			(Rupees in thousand)	
6.	**UNDISTRIBUTED PERCENTAGE RETURN RESERVE**			
	Balance as at beginning of year		365,053	275,261
	Transferred from profit and loss account		118,095	89,792
			483,148	365,053

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. EXPLORATION AND EVALUATION RESERVE

The Company has created this reserve persuant to adoption of disclosure requirements of IFRS - 6 which are applicable to the Company's financial statements with effect from July 1, 2007. The reserve consists of exploration and evaluation expenditure net of cost of dry and abandoned wells amounting to Rs. 1,195.106 million (2007: Rs. 509.346 million). The corresponding effect of the reserve has been incorporated as exploration and evaluation assets.

8. PROFIT AND LOSS ACCOUNT

The amount of Rs. 4,151.230 million (2007; Rs. 2,513.670 million) represents the following:

8.1 Undistributable balance

The amount of Rs. 4,143.256 million (2007: Rs. 2,504.924 million), 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, 2007	Generated during the year ended June 30, 2008	Total
			(Rupees in thousand)	
a)	Rupee element of capital expenditure (net of depreciation / amortization) and repayment of borrowings	2,240,153	1,638,332	3,878,485
b)	Maintenance of debt service ratio	90,234	–	90,234
c)	Maintenance of current ratio	174,537	–	174,537
	Total	2,504,924	1,638,332	4,143,256
	2007	2,029,827	475,097	2,504,924

		Note	2008	2007
			(Rupees in thousand)	
8.2	**Distributable balance**			
	Undistributed guaranteed return		7,974	8,746

This represents the additional 2.17% (2007: 2.38%) guaranteed return to shareholders on account of increase in gas production during the year in accordance with the Agreement as referred in note 3.2 to these financial statements.

	Note	2008	2007
		(Rupees in thousand)	
9. LONG TERM FINANCING - SECURED			
From Consortium of Banks	9.1	500,000	112,100
Less: Current maturity shown under current liabilities		–	112,100
		500,000	–

9.1 The Company has arranged a Syndicated Term Finance Loan from a consortium led by Bank Alfalah Limited (Agent bank) and other financial institutions (syndicate members) for financing of drilling of three wells in Mari Deep, Goru B reservoir. The Loan amount for Goru B project is Rs. 1,638 million of which an amount of Rs. 500 million was disbursed during March 2008. The mark-up is payable semi-annually in arrears on the outstanding facility amount at base rate plus 1.50% per annum. The base rate is defined as average of the six months Karachi Inter Bank Offered Rate (KIBOR). The effective mark-up rate for the year ended June 30, 2008 was 11.84%. The loan is repayable in ten equal semi-annual installments after a grace period of 24 months from date of first disbursement. The loan is secured by mortgage, hypothecation and floating charges created against all present and future assets of the Company.

	2008	2007
	(Rupees in thousand)	
10. PROVISION FOR DECOMMISSIONING COST		
Balance as at beginning of year	1,307,728	1,294,481
Provision made during the year	113,677	–
	1,421,405	1,294,481
Reversal of provision due to change in estimates	–	(111,017)
Unwinding of discount on provision for decommissioning cost	166,757	124,264
Balance as at end of year	1,588,162	1,307,728
The above provision is analyzed as follows:		
Wells	1,216,386	1,116,821
Gathering lines	80,755	66,643
	1,297,141	1,183,464
Unwinding of discount on provision for decommissioning cost		
Wells	273,728	117,266
Gathering lines	17,293	6,998
	291,021	124,264
	1,588,162	1,307,728

Significant assumptions used in computation of the provision are as follows:

	2008	2007
	(Per annum)	
Discount rate	10.50%	10.50%
Inflation rate	7.63%	7.82%

	Note	2008	2007
		(Rupees in thousand)	
11. EMPLOYEE BENEFITS - UNFUNDED			
Post retirement medical benefits	35.2	19,418	18,471
Post retirement leave benefits	35.2	23,768	20,284
Pension plan for non-management employees	35.2	12,448	10,270
Others		–	915
		55,634	49,940
12. ACCRUED AND OTHER LIABILITIES			
Gas development surcharge		1,864,651	2,215,542
General sales tax		237,921	223,167
Excise duty		53,692	50,395
Mark-up on long term financing - secured		17,405	285
Workers' Welfare Fund		288,241	161,747
Workers' Profit Participation Fund	12.1	215,095	75,513
Employee benefits - funded	35.1	59,431	34,558
Retention and earnest money deposits		8,615	6,715
Payable to joint venture partners		62,848	60,016
Other accrued liabilities		143,868	124,861
Unclaimed dividend		4,030	3,542
Unpaid dividend		37,764	38,000
Adjustment/surplus payable to the President of Pakistan as per the Agreement		–	232,630
		2,993,561	3,226,971
12.1 Workers' Profit Participation Fund			
Balance as at beginning of year		75,513	33,303
Allocation for the year		215,095	75,513
Interest on delayed payments @ 24.29% (2007 : 23.24%) per annum.		94	1,103
		215,189	76,616
		290,702	109,919
Amount paid to the Fund		(75,607)	(34,406)
Balance as at end of year		215,095	75,513
13. PROVISION FOR TAXATION - NET			
Balance as at beginning of year		722,522	589,205
Provision for the year			
- Current		1,560,794	902,166
- Prior years		384,373	–
		1,945,167	902,166
Income tax paid during the year		(1,413,175)	(768,849)
Balance as at end of year		1,254,514	722,522

14. CONTINGENCIES AND COMMITMENTS

14.1 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 payments from WAPDA and interest on delayed payments of development surcharge to the Government of Pakistan as at June 30, 2008 amounts to Rs. 552.247 million (2007 : Rs. 400.524 million) and Rs. 112.392 million (2007 : 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	2008	2007
		(Rupees in thousand)	
14.2 Other contingencies			
Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials		139,632	187,805
14.3 Commitments			
(i) Capital expenditure:			
- Share in joint ventures		2,952,174	2,105,161
- Others		1,384,940	840,829
		4,337,114	2,945,990
(ii) Operating lease rentals due:			
- Less than one year		9,370	11,339
- More than one year but less than five years		16,677	27,225
		26,047	38,564
		4,363,161	2,984,554

15. PROPERTY, PLANT AND EQUIPMENT

(Restated)

DESCRIPTION	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	Decommissioning cost - Mari field Gathering Lines	Capital works in progress (note 15.1)	Total
	(Rupees in thousand)														
Cost															
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	72,814	112,034	2,413,481
Additions during the year	8,431	–	33,659	–	5,039	348	30,633	5,042	10,270	3,179	14,667	7,285	–	587,412	705,965
Disposals	–	–	–	–	–	(21,454)	(7,739)	(5,508)	–	(1,645)	(161)	(1,362)	–	–	(37,869)
Adjustments	–	–	–	–	–	–	–	–	–	–	–	–	(6,171)	(1,572)	(7,743)
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	66,643	505,956	2,881,916
Balance as at July 01, 2007	152,069	51,362	438,431	45,519	102,357	326	396,178	57,007	788,333	43,620	140,728	93,387	66,643	505,956	2,881,916
Additions during the year	1,568	–	11,293	–	–	–	8,429	9,315	–	3,353	20,580	11,005	14,112	2,319,940	2,399,595
Disposals	–	–	(9,137)	–	(153)	–	(13,298)	(3,872)	(188)	(1,524)	(14,937)	(6,337)	–	–	(49,446)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	(370,702)	(370,702)
Balance as at June 30, 2008	153,637	51,362	440,587	45,519	102,204	326	391,309	62,450	788,145	45,449	146,371	98,055	80,755	2,455,194	4,861,363
Depreciation															
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	10,623	–	1,205,384
Depreciation for the year	–	959	20,993	2,620	5,769	93	28,721	5,947	37,439	3,323	19,926	9,491	1,979	–	137,260
On disposals	–	–	–	–	–	(21,440)	(6,552)	(5,308)	–	(1,536)	(13)	(1,271)	–	–	(36,120)
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	12,602	–	1,306,524
Balance as at July 01, 2007	–	4,045	151,830	24,134	57,112	85	231,132	49,002	562,892	27,094	124,543	62,053	12,602	–	1,306,524
Depreciation for the year	–	959	21,456	2,620	5,440	92	28,301	6,118	38,013	3,367	14,856	13,406	2,402	–	137,030
On disposals	–	–	(2,542)	–	(153)	–	(11,742)	(3,770)	(189)	(1,372)	(14,937)	(5,674)	–	–	(40,379)
Balance as at June 30, 2008	–	5,004	170,744	26,754	62,399	177	247,691	51,350	600,716	29,089	124,462	69,785	15,004	–	1,403,175
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	54,041	505,956	1,575,392
Carrying amounts - 2008	153,637	46,358	269,843	18,765	39,805	149	143,618	11,100	187,429	16,360	21,909	28,270	65,751	2,455,194	3,458,188
Rates of depreciation	–	1-3%	5%	5%	10%	20%	10%	25%	10%	10%	30%	20%	Note 3.5		

	Note	2008	2007
		(Rupees in thousand)	
15.1 CAPITAL WORKS IN PROGRESS			
Phase VI project		1,645	1,645
Mari Deep 12			
Materials and equipment		451	1,271
SML - 1			
Materials and equipment		2,692	4,162
Pirkoh well			
Buildings, roads and bridges		358	38
Materials and equipment		12,998	15,606
		13,356	15,644
SML - appraisal well			
Land		–	658
Buildings, roads and bridges		9,699	6,473
Materials and equipment		43,277	103,133
		52,976	110,264
3 Up front wells and production facilities			
Land		1,480	549
Buildings, roads and bridges		5,761	3,314
Materials and equipment		988,781	296,810
		996,022	300,673
Acquisition of Rig			
Machinery		967,356	–
Others		121,296	–
		1,088,652	–
Compression Study			
Consultancy services		6,750	–
Emergency shut down			
Material		38,878	–
Support of production			
Buildings, roads and bridges		34,098	27,104
Plant, machinery and others		219,674	45,193
		253,772	72,297
		2,455,194	505,956

15.2 Detail of property, plant and equipment disposed off during the year

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	(Rupees in thousand)					
Boundary wall in Mari Field Area (Note 15.2.1)	7,600	1,140	6,460	7,678	Insurance claim	EFU General Insurance Co.
Computer and allied equipment	151	66	85	–	As per Company policy	Ex- Managing Director
Equipment and general plants	790	632	158	4	Through auction	M/s Shafqat Khan
Equipment and general plants	560	126	434	–	As per Company policy	Ex- Managing Director
Equipment and general plants	1,000	850	150	1	Through auction	M/s Shafqat Khan
Vehicle	1,285	643	642	514	As per Company policy	Ex- Managing Director
Vehicles	19,989	19,968	21	9,419	Through auction	Various
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees fifty thousand	18,071	16,954	1,117	1,637	As per Company policy	–
	49,446	40,379	9,067	19,253		

15.2.1 This represents boundary wall in Mari Field Area collapsed due to rain during the year against which insurance claim from EFU General Insurance Company have been received.

16. DEVELOPMENT AND PRODUCTION ASSETS

Description	Producing fields		Shut-in fields		Wells in progress	Sub total	Decommissioning cost	Total
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				
	(Rupees in thousand)							
Cost								
Balance as at July 01, 2006	2,673,374	–	–	36,286	–	2,709,660	1,221,666	3,931,326
Additions	73,365	–	–	3,513	7,095	83,973	–	83,973
Adjustment	–	–	–	–	372	372	(104,846)	(104,474)
Transfers	(80)	–	–	–	–	(80)	–	(80)
Balance as at June 30, 2007	2,746,659	–	–	39,799	7,467	2,793,925	1,116,820	3,910,745
Balance as at July 01, 2007	2,746,659	–	–	39,799	7,467	2,793,925	1,116,820	3,910,745
Additions	311,524	–	–	6,666	317,050	635,240	99,565	734,805
Transfers	–	–	–	–	(310,606)	(310,606)	–	(310,606)
Balance as at June 30, 2008	3,058,183	–	–	46,465	13,911	3,118,559	1,216,385	4,334,944
Amortization								
Balance as at July 01, 2006	1,571,450	–	–	–	–	1,571,450	172,681	1,744,131
Charge for the year	210,565	–	–	–	–	210,565	32,168	242,733
	(80)	–	–	–	–	(80)	–	(80)
Balance as at June 30, 2007	1,781,935	–	–	–	–	1,781,935	204,849	1,986,784
Balance as at July 01, 2007	1,781,935	–	–	–	–	1,781,935	204,849	1,986,784
Charge for the year	196,382	–	–	–	–	196,382	34,517	230,899
Balance as at June 30, 2008	1,978,317	–	–	–	–	1,978,317	239,366	2,217,683
Carrying amount - 2007	964,724	–	–	39,799	7,467	1,011,990	911,971	1,923,961
Carrying amount - 2008	1,079,866	–	–	46,465	13,911	1,140,242	977,019	2,117,261

	Note	2008	2007
		(Rupees in thousand)	
17. EXPLORATION & EVALUATION ASSETS			
Balance at the beginning of year		509,346	325,352
Additions		726,368	438,564
		1,235,714	763,916
Cost of dry and abandoned wells		(40,608)	(254,570)
Balance at the end of year		1,195,106	509,346

17.1 Details of liabilities, other assets and expenditures incurred in respect of exploration and evaluation activities are as follows:

	Note	2008	2007
		(Rupees in thousand)	
Current liabilities related to exploration and evaluation		62,848	60,016
Current assets related to exploration and evaluation		95,160	275,682
Exploration and prospecting expenditure	28	461,240	846,350

	Note	2008	2007
18. LONG TERM LOANS AND ADVANCES			
Considered good – secured			
– Executives		2,960	3,750
– Other employees		5,590	6,050
		8,550	9,800
Less: current portion	23		
– Executives		2,787	3,298
– Other employees		3,189	3,340
		5,976	6,638
		2,574	3,162

18.1 Reconciliation of carrying amount of loans to executives and other employees is as follows:

	Balance as at July 01, 2007	Disbursements during the year	Repayments during the year	Balance as at June 30, 2008
	(Rupees in thousand)			
Executives	3,750	5,404	6,194	2,960
Other employees	6,050	4,921	5,381	5,590
	9,800	10,325	11,575	8,550
2007	12,414	11,465	14,079	9,800

18.2 The maximum amount due from executives at the end of any month during the year was Rs. 3.561 million (2007 : Rs. 2.561 million).

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

		Note	2008	2007
			(Rupees in thousand)	
19.	**LONG TERM DEPOSITS AND PREPAYMENTS**			
	Deposits		6,135	7,843
	Prepayments		685	904
			6,820	8,747
20.	**DEFERRED TAXATION**			
	The balance of deferred tax is in respect of following temporary differences:			
	Provision for employee benefits - unfunded		19,472	12,485
	Exploration expenditure		894,982	366,662
	Unwinding of discount on provision for decommissioning cost		101,857	31,066
	Accelerated tax depreciation		(377,445)	(254,226)
	Provision for prior years		62,394	–
	Deferred tax asset	20.1	701,260	155,987

20.1 The Company has recognized deferred tax asset during the year since the Company believes that the taxable profits will be available against which deductible temporary differences will be utilized.

		Note	2008	2007
			(Rupees in thousand)	
21.	**STORES AND SPARES**			
	Stores	21.1	137,654	136,141
	Spares		46,969	46,650
			184,623	182,791

21.1 These include stores valuing Rs. 0.177 million (2007: Rs. 0.177 million) and Rs. Nil (2007: Rs. 2.441 million) representing the Company's share in the joint ventures operated by ENI Pakistan Limited and Tullow Pakistan (Developments) Limited respectively.

		Note	2008	2007
			(Rupees in thousand)	
22.	**TRADE DEBTS**			
	Associated undertakings - considered good			
	Water and Power Development Authority		1,806,185	945,156
	Fauji Fertilizer Company Limited		405,384	392,055
	Sui Southern Gas Company Limited		908	1,545
			2,212,477	1,338,756
	Others - considered good			
	Engro Chemical Pakistan Limited		161,564	117,969
			2,374,041	1,456,725

22.1 The maximum aggregate amount outstanding at the end of any month during the year from associated undertakings was Rs. 1,806.185 million (2007 : Rs. 1,750.062 million).

	Note	2008	2007
		(Rupees in thousand)	
23. LOANS AND ADVANCES			
Current portion of long term loans and advances - considered good	18		
– Executives		2,787	3,298
– Other employees		3,189	3,340
		5,976	6,638
Advances to staff		12,175	3,221
Advances to suppliers and others		3,393	3,222
Advances to joint venture partners		128,695	304,737
WPPF paid in advance		–	73,948
Royalty paid in advance		15,759	109,833
Receivable from President of Pakistan as per the Agreement		144,429	–
		310,427	501,599
24. SHORT TERM PREPAYMENTS			
Mining lease		2,932	2,904
Rent		261	244
Others		5,948	3,117
		9,141	6,265
25. OTHER RECEIVABLES			
General sales tax paid under protest		1,709	1,709
Receivable from Customs Authorities		365	365
Others		2,540	2,131
		4,614	4,205
26. CASH AND CASH EQUIVALENTS			
Cash in hand		158	300
Balances with banks on:			
Deposit accounts	26.1	2,208,173	2,824,168
Current accounts	26.2	6,280	4,741
		2,214,453	2,828,909
		2,214,611	2,829,209

26.1 Deposit accounts carry interest rate of 1% to 10.7% (2007: 1% to 11.7%) per annum.

26.2 These include foreign currency accounts amounting to USD Nil (2007: USD 6 thousand).

		Note	2008	2007
			(Rupees in thousand)	
27.	**OPERATING EXPENSES**			
	Salaries, wages and benefits		425,391	366,651
	Employee benefits	27.1	64,045	42,823
	Rent, rates and taxes		4,521	5,026
	Legal and professional services		11,849	15,270
	Fuel, light, power and water		34,775	34,487
	Maintenance and repairs		47,803	49,755
	Insurance		22,565	36,098
	Depreciation	15	137,030	137,260
	Amortization	16	230,899	242,733
	Employees medical and welfare		58,996	52,654
	Security and other services		186,092	107,625
	Traveling		27,458	10,422
	Communications		7,466	6,996
	Office supplies		16,169	8,610
	Technical software		21,614	9,025
	Auditor's remuneration	27.2	775	764
	Stores and spares consumed		23,714	33,016
	Mobile dispensary and social welfare		45,446	26,929
	Training		18,298	15,921
	Habib Rahi reservoir study		15,882	5,534
	Advertisement		7,011	3,398
	Books and periodicals		425	482
	Public relations and social activities		7,415	2,959
	Directors' fee and expenses		3,311	147
	Clearing and forwarding expenses		467	1,130
	Subscriptions		501	426
	Miscellaneous		1,389	1,728
			1,421,307	1,217,869
	Less: Recoveries from joint ventures		134,597	84,311
			1,286,710	1,133,558

27.1 These include Rs. 9.757 million (2007: Rs. 9.755 million) on account of defined contribution plan.

		Note	2008	2007
			(Rupees in thousand)	
27.2	**Auditor's remuneration**			
	Audit fee		287	287
	Half year review		100	100
	Special reports		184	184
	Other certifications		125	125
	Out of pocket expenses		79	68
			775	764

28. EXPLORATION AND PROSPECTING EXPENDITURE

	2008	2007	2008	2007
	Working interest (%)		(Rupees in thousand)	
OPERATED BLOCKS				
Zarghun South Field	35.00	35.00	7,255	9,217
Ziarat Block	60.00	60.00	26,286	95,747
Karak Block	100.00	100.00	14,332	132,096
Noor Block	100.00	100.00	39,868	76,731
Hanna Block	60.00	60.00	8,547	7,164
Harnai Block	60.00	60.00	6,481	9,739
Sujawal Block	100.00	100.00	292,792	15,923
Sukkur Block	50.00	65.00	(11,607)	112,703
			383,954	459,320
NON - OPERATED BLOCKS				
Dhadar Block	27.67	27.67	1,903	4,734
Hala Block	35.00	35.00	18,942	188,715
Kot Sarang Block	25.00	25.00	(6,562)	159,569
Pasni Block	25.00	25.00	(6,414)	–
Nawabshah Block	15.00	15.00	(1,984)	(1,604)
Kohat Block	20.00	20.00	7,904	26,681
Bannu West Block	10.00	10.00	1,461	1,294
Zamurdan Block	20.00	20.00	55,299	3,084
Kohlu Block	30.00	30.00	2,725	2,822
Kalchas Block	20.00	20.00	4,012	1,735
			77,286	387,030
			461,240	846,350

28.1 Exploration expenditure represents cost other than drilling expenditure directly charged to profit and loss account as referred in note 3.8 to these financial statements.

	Note	2008	2007
		(Rupees in thousand)	
28.2 Exploration expenditure comprises of :			
Cost of dry and abandoned wells		40,608	254,570
Prospecting expenditure		420,632	591,780
		461,240	846,350

29. FINANCE COST

	2008	2007
Mark-up on long term financing - secured	20,360	38,021
Unwinding of discount on provision for decommissioning cost	166,757	124,264
Interest on Workers' Profit Participation Fund	94	1,102
Bank charges	652	511
	187,863	163,898

	Note	2008	2007
		(Rupees in thousand)	
30. OTHER CHARGES			
Workers' Profits Participation Fund		215,095	75,513
Workers' Welfare Fund			
Current year		81,705	52,604
Prior year		44,789	–
		126,494	52,604
		341,589	128,117
31. OTHER INCOME			
Income from financial assets			
Income on bank deposits		345,982	436,726
Exchange gain / (loss)		19,647	(254)
		365,629	436,472
Income from non financial assets			
Gain / (loss) on sale of property, plant and equipment		10,186	(529)
Miscellaneous		1,841	739
		12,027	210
		377,656	436,682
32. TAXATION			
Current taxation			
Current		1,560,794	902,166
Prior years		384,373	–
		1,945,167	902,166
Deferred taxation			
Current		(482,880)	(203,907)
Prior years		(62,394)	–
		(545,274)	(203,907)
		1,399,893	698,259

	2008	2007
	%	%
32.1 RECONCILIATION OF EFFECTIVE TAX RATE		
Applicable tax rate	50.00	35.00
Effect of:		
Amounts not deductible for tax purposes	6.59	23.62
Origination and reversal of temporary differences	(7.44)	5.87
Depletion allowance	(11.10)	(13.97)
Prior years'	(2.71)	–
Aggregate effective tax rate charged to income	35.34	50.52

		Note	2008	2007
			(Rupees in thousand)	
33.	**EARNINGS PER SHARE - BASIC AND DILUTIVE**			
	Profit for the year		2,560,412	683,885
	Reserve for exploration & evaluation assets (note 7)		685,760	–
	Undistributable profit as explained (note 8)		1,638,332	475,097
			2,324,092	475,097
	Balance distributable profit after tax		236,320	208,788
	Number of shares outstanding (in thousand)		36,750	36,750
	Earnings per share on the basis of distributable profits (Rupees)		6.43	5.68
	Earnings per share on the basis of profit and loss account (Rupees)		69.67	18.61

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

		Note	2008	2007
			(Rupees in thousand)	
34.	**CASH GENERATED FROM OPERATIONS**			
	Profit before taxation		3,960,305	1,382,144
	Adjustments for:			
	Depreciation of property, plant and equipment		137,030	137,260
	Amortization of development and production assets		230,899	242,733
	(Gain) / loss on disposal of property, plant and equipment		(10,186)	529
	Employee benefits - unfunded		7,240	(19,704)
	Interest income		(345,982)	(436,726)
	Finance cost		187,863	163,898
	Working capital changes	34.1	(982,043)	(504,455)
			3,185,126	965,679

		2008	2007
34.1	**Working capital changes**		
	(Increase)/decrease in current assets		
	Stores and spares	(1,832)	(15,844)
	Trade debts	(917,316)	(244,756)
	Loans and advances	191,172	(294,330)
	Short term prepayments	(2,876)	18,078
	Other receivables	(409)	(489)
		(731,261)	(537,341)
	(Decrease) / increase in accrued and other liabilities	(250,782)	32,886
		(982,043)	(504,455)

35. EMPLOYEE BENEFITS

35.1 Funded benefits

The results of the actuarial valuation carried out as at June 30, 2008 and June 30, 2007 are as follows:

	2008			2007		
	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	11,169	255,481	103,555	11,441	222,252	90,634
Fair value of plan assets	(53,494)	(149,527)	(72,092)	(162,016)	(14,773)	(58,936)
Net actuarial gains/(losses) not recognized	21,979	(35,311)	(22,329)	4,572	(41,457)	(17,159)
Liability recognized in balance sheet	(20,346)	70,643	9,134	(146,003)	166,022	14,539
Movement in payable to defined benefit plan						
Balance as at beginning of year	(146,003)	166,022	14,539	16,247	8,014	7,592
Add: Cost for the year	–	40,528	9,134	(147,425)	192,934	8,495
	(146,003)	206,550	23,673	(131,178)	200,948	16,087
Less: Contribution to fund during the year	125,657	(135,907)	(14,539)	(14,825)	(34,926)	(1,548)
Balance as at end of year	(20,346)	70,643	9,134	(146,003)	166,022	14,539
Movement in fair value of plan assets						
Balance as at beginning of year	162,016	14,773	58,936	129,628	21,750	60,738
Contributions during the year	(125,657)	135,907	14,539	14,825	34,926	1,548
Expected return on plan assets	1,095	1,850	5,576	12,257	12,466	5,328
Actuarial gain/(loss) on plan assets	17,021	8,014	1,427	6,287	(10,515)	(2,065)
Benefits paid	(981)	(7,798)	(8,386)	(981)	(43,854)	(6,613)
Balance as at end of year	53,494	152,746	72,092	162,016	14,773	58,936
Plan assets comprise of						
Defence Saving Certificates	35,801	11,118	–	85,280	14,568	8,214
Deposit with banks	17,643	138,409	72,092	76,555	3	50,549
Others	50	3,219	–	181	202	173
	53,494	152,746	72,092	162,016	14,773	58,936
Costs for the year						
Current service cost	–	18,241	5,116	–	15,828	5,119
Interest cost	1,095	22,534	8,919	1,010	19,913	7,863
Expected return on plan assets	(1,095)	(1,850)	(5,576)	(12,257)	(12,466)	(5,328)
Amortization of actuarial loss	–	1,603	675	–	1,711	841
Immediate recognition of curtailment gain	–	–	–	(136,178)	–	–
Recognition of vested past service cost	–	–	–	–	167,948	–
Total cost	–	40,528	9,134	(147,425)	192,934	8,495
Actual return on plan assets	18,119	7,135	7,125	14,825	1,945	4,850

35.2 Un–funded benefits

	2008			2007		
	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	23,768	22,006	8,505	20,284	21,065	7,699
Net actuarial (losses)/gains not recognized	–	(2,588)	3,943	–	(2,594)	2,571
Liability recognized in balance sheet	23,768	19,418	12,448	20,284	18,471	10,270
Movement in payable to defined benefit plan						
Balance as at beginning of year	20,284	18,471	10,270	19,806	45,481	8,113
Add: Cost for the year	3,882	2,093	2,178	3,405	(25,695)	2,157
	24,166	20,564	12,448	23,211	19,786	10,270
Less: Payments during the year	(398)	(1,146)	–	(2,927)	(1,315)	–
Balance as at end of year	23,768	19,418	12,448	20,284	18,471	10,270
Costs for the year						
Current service cost	1,756	–	1,484	1,539	–	1,455
Interest cost	2,006	2,044	844	1,729	1,535	716
Immediate recognition of curtailment loss/(gain)	120	49	(150)	137	(27,230)	(14)
Total cost	3,882	2,093	2,178	3,405	(25,695)	2,157

35.3 The principal actuarial assumptions used in the actuarial valuation of the defined benefit plans are as follows:

	2008	2007
– Discount rate	11% per annum	10% per annum
– Expected rate of return on plan assets	11% per annum	10% per annum
– Expected rate of salary increase	11% per annum	10% per annum
– Expected rate of pension increase	6% per annum	4% per annum

35.4 A one percent change in medical cost trend rate would have the following effect:

	2008	
	(Rupees in thousand)	
	1% increase	1% decrease
Present value of medical obligations	2,626	2,185
Current service cost and interest cost	289	240

35.5 Comparison of present value of defined benefit obligation, fair value of plan assets and surplus or deficit of pension and gratuity for five years is as follows:

	2008	2007	2006	2005	2004
		(Rupees in thousand)			
Management pension					
Present value of defined benefit obligations	11,169	11,441	176,155	165,985	137,935
Fair value of plan assets	(53,494)	(162,016)	(129,628)	(106,431)	(85,425)
(Surplus) / deficit	(42,325)	(150,575)	46,527	59,554	52,510
Experience adjustments on obligations	386	298	10,077	(9,356)	(15,747)
Experience adjustments on plan assets	17,021	6,287	2,950	3,246	4,679
Gratuity (Management and non-management)					
Present value of defined benefit obligations	151,925	131,618	(31,247)	(28,133)	(22,225)
Fair value of plan assets	(221,619)	(73,709)	(82,488)	(133,108)	(53,536)
(Surplus) / deficit	(69,694)	57,909	(113,735)	(161,241)	(75,761)
Experience adjustments on obligations	(10,419)	(3,667)	(14,331)	79	(6,118)
Experience adjustments on plan assets	9,441	(12,580)	(3,118)	(386)	274

36. FINANCIAL INSTRUMENTS

36.1 Financial assets and liabilities

	2008 Effective Rate	2008 Interest bearing	2008 Non–Interest bearing	2008 Total	2007 Effective Rate	2007 Interest bearing	2007 Non–Interest bearing	2007 Total
			(Rupees in thousand)					
Financial assets:								
Maturity upto one year								
Trade debts		–	2,374,041	2,374,041		–	1,456,725	1,456,725
Loans and advances		–	5,976	5,976		–	6,638	6,638
Interest accrued		–	12,235	12,235		–	23,416	23,416
Cash and cash equivalents	10.14	2,208,173	6,438	2,214,611	10.73	2,824,168	5,041	2,829,209
Maturity after more than one year								
Long term loans and advances		–	2,574	2,574		–	3,162	3,162
Long term deposits		–	6,135	6,135		–	7,843	7,843
		2,208,173	2,407,399	4,615,572		2,824,168	1,502,825	4,326,993
Financial liabilities:								
Maturity upto one year								
Long term financing – secured		–	–	–	10.18	112,100	–	112,100
Accrued and other liabilities		–	274,530	274,530		–	233,419	233,419
Maturity after more than one year								
Long term financing – secured	11.84	500,000	–	500,000	10.18	–	–	–
		500,000	274,530	774,530		112,100	233,419	345,519
On balance sheet gap:		1,708,173	2,132,869	3,841,042		2,712,068	1,269,406	3,981,474
Off balance sheet items:								
Commitments		–	4,363,161	4,363,161		–	2,984,554	2,984,554
Indemnity bonds		–	139,632	139,632		–	187,805	187,805
		–	4,502,793	4,502,793		–	3,172,359	3,172,359

36.2 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. 4,616 million (2007: Rs. 4,327 million), financial assets which are subject to credit risk amount to Rs. 4,610 million (2007: Rs. 4,319 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.

36.3 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.

36.4 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.

36.5 Fair value of financial assets and liabilities

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

37. 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:

	2008			2007		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	(Rupees in thousand)					
Managerial remuneration	1,704	903	68,176	1,725	1,475	62,172
Company's contribution to provident fund	125	–	6,237	1,086	–	6,112
Housing and utilities	1,798	814	57,691	1,798	1,183	51,151
Other allowances and benefits	2,322	1,521	79,040	756	1,292	80,520
Bonuses	1,453	–	21,769	151	128	4,812
	7,402	3,238	232,913	5,516	4,078	204,767
Number of persons including those who worked part of the year	1	1	72	1	1	69

The above were also provided with medical facilities, 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.

The aggregate amount of directors' fee including traveling cost to 14 directors (2007 : 14) was Rs. 3.311 million (2007: Rs. 0.147 million).

38. 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:

	2008	2007
	(Rupees in thousand)	
Sale of gas to related parties are as follows:		
Fauji Fertilizer Company Limited	9,393,866	9,609,837
Water and Power Development Authority	8,391,144	8,794,232
Sui Southern Gas Company Limited	13,268	11,283
Contribution to employee beneft funds	64,070	64,070
Receivable balances with related parties are as follows:		
Fauji Fertilizers Company Limited	405,384	392,055
Water and Power Development Authority	1,806,185	945,156
Sui Southern Gas Company Limited	908	1,545

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

39. NEW ACCOUNTING STANDARDS AND IFRS INTERPRETATION THAT ARE NOT YET EFFECTIVE

The following International Financial Reporting Standards, International Accounting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them.

		Effective from
IAS–23	– Borrowing cost (as revised);	January 01, 2009
IFRS 7	– Financial Instruments: Disclosures;	April 28, 2008
IFRS 8	– Operating Segment;	January 01, 2009
IFRIC 12	– Service Concession Agreement;	January 01, 2008
IFRIC 13	– Customer Loyalty Programmes;	January 01, 2008
IFRIC 14	– The Limit on a Defined Assets Minimum Funding Requirements and their Interactions.	January 01, 2008
IAS 29	– Financial reporting in Hyperinflationary Economies;	April 28, 2008

The management believes that these accounting standards and interpretations do not have any impact on the present transactions of the Company or the Company would be able to comply with these standards, interpretations and amendments when applicable.

40. CAPITAL RISK MANAGEMENT

The Company is not exposed to any significant risk as the return to shareholders is guaranteed in accordance with the terms of the Agreement as referred in note 3.2 to these financial statements and the capital structure of the Company does not affect the return payable to the shareholders.

41. CORRESPONDING FIGURES

The comparative figures have been rearranged and/ or reclassified, wherever necessary, for the purpose of comparison in the financial statements. The following note line items have been transferred from property, plant and equipment to development and production assets pursuant to adoption of IFRS –6:

	Cost	Accumulated depreciation	Carrying amounts
		(Rupees in thousand)	
Description			
Drilling expenditure Mari field	2,655,512	1,723,561	931,951
Decommissioning cost of Mari field	1,083,325	204,849	878,476
Decommissioning cost of Ziarat and Zarghun South fields	33,496	–	33,496
Capital work in progress (drilling cost)	10,980	–	10,980
	3,783,313	1,928,410	1,854,903

41.1 In addition to the above, intangible assets amounting to Rs. 69.058 million have been reclassified as part of development and production assets.

42. GENERAL

42.1 These financial statements were authorized for issue on Septemeber 24, 2008 by the Board of Directors of the Company.

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

Lt Gen Mushtaq Hussain HI(M) (Retd)
Chief Executive

Qaiser Javed
Director

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 24th Annual General Meeting of the Company, to be held on October 28, 2008 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this ________ day of ________ 2008.

____
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.

FOLD HERE

FOLD HERE

FOLD HERE

FOLD HERE