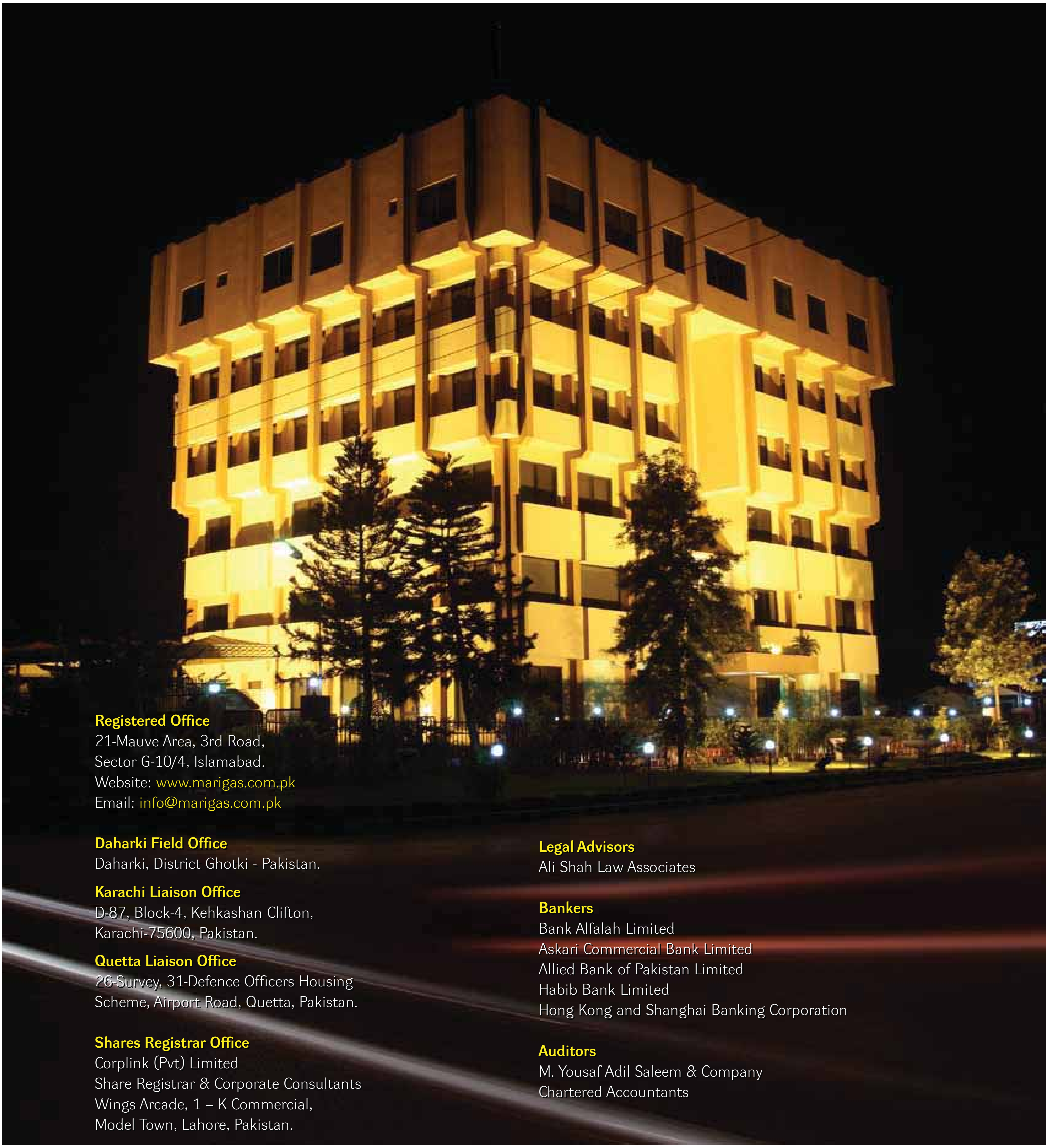
We see **opportunity**

Mari Gas Company Limited

Annual Report 2011

Contents

Company Information



Registered Office
21-Mauve Area, 3rd Road,
Sector G-10/4, Islamabad.
Website: www.marigas.com.pk
Email: info@marigas.com.pk

Daharki Field Office
Daharki, District Ghotki - Pakistan.

Karachi Liaison Office
D-87, Block-4, Kehkashan Clifton,
Karachi-75600, Pakistan.

Quetta Liaison Office
26-Survey, 31-Defence Officers Housing
Scheme, Airport Road, Quetta, Pakistan.

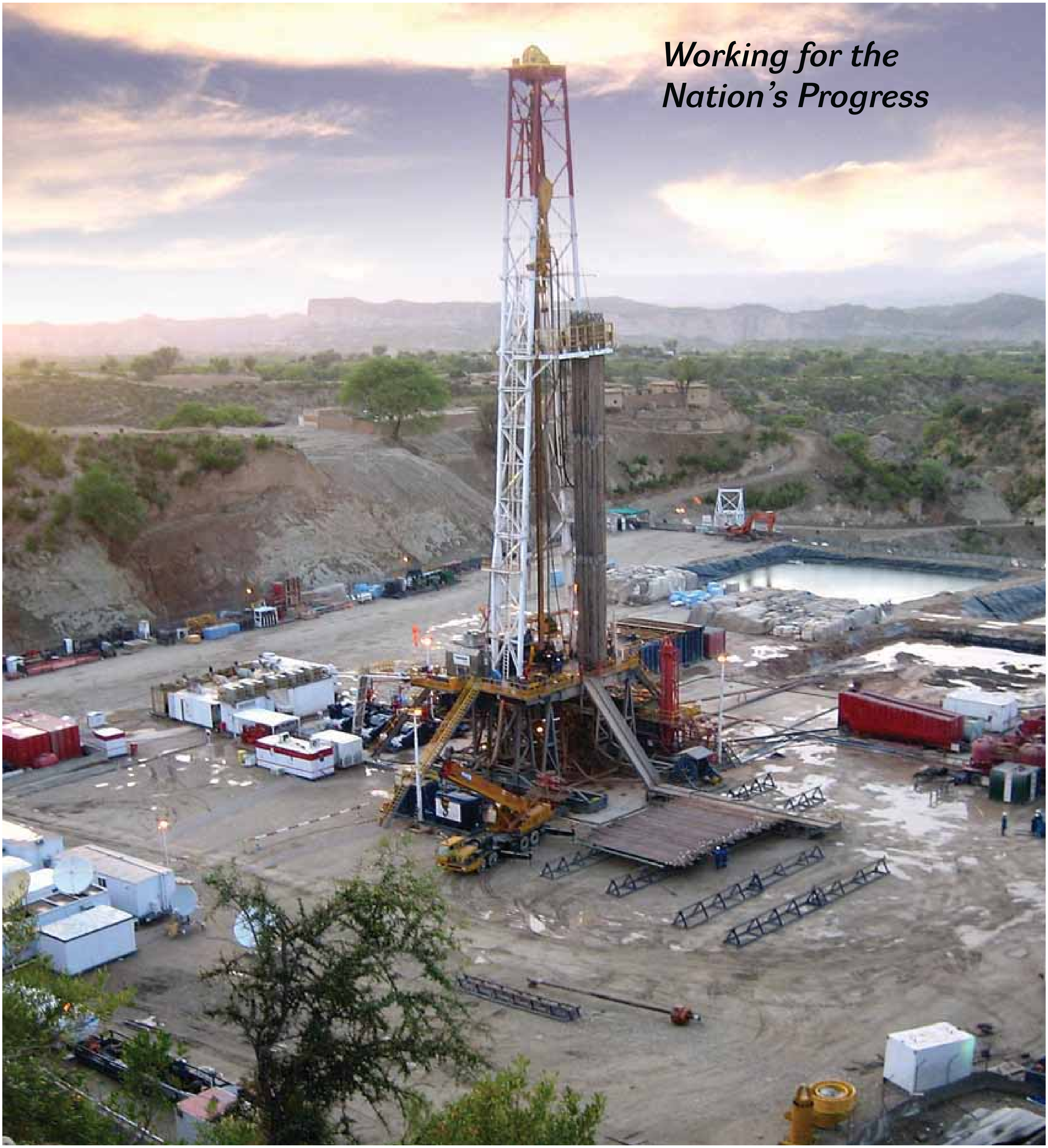
Shares Registrar Office
Corplink (Pvt) Limited
Share Registrar & Corporate Consultants
Wings Arcade, 1 – K Commercial,
Model Town, Lahore, Pakistan.

Legal Advisors
Ali Shah Law Associates

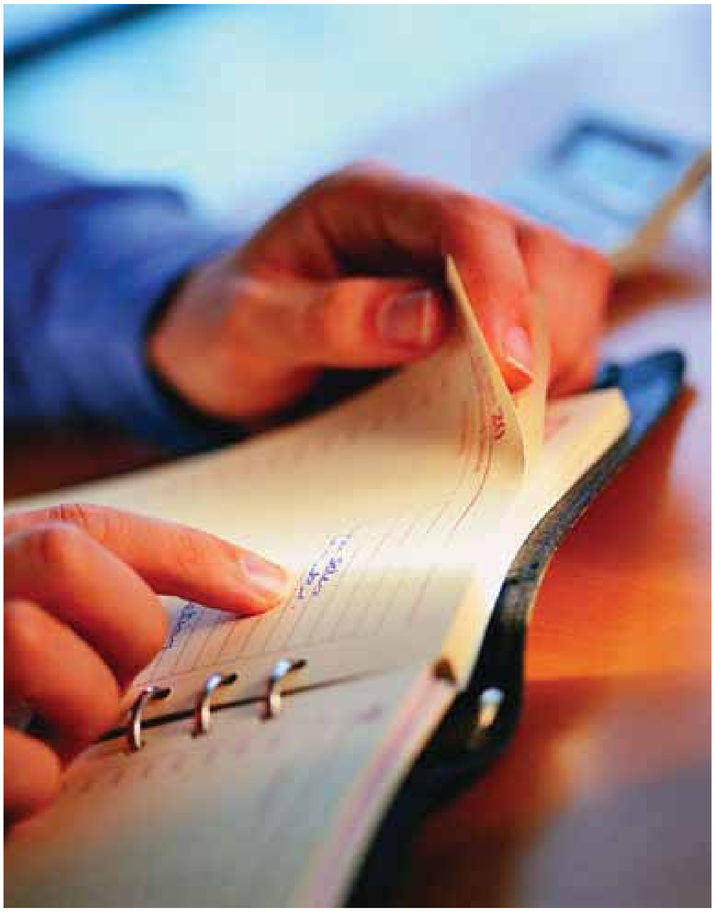
Bankers
Bank Alfalah Limited
Askari Commercial Bank Limited
Allied Bank of Pakistan Limited
Habib Bank Limited
Hong Kong and Shanghai Banking Corporation

Auditors
M. Yousaf Adil Saleem & Company
Chartered Accountants

Working for the Nation's Progress



Notice of Annual General Meeting



Notice is herby given that the 27th Annual General Meeting of the Shareholders of Mari Gas Company Limited will be held on Wednesday, October 26, 2011 at 10:00 a.m, at the Registered Office of the Company situated at 21-Mauve Area, 3rd Road, Sector G-10/4, Islamabad to transact the following business:

Ordinary Business

1. To confirm the minutes of the 26th Annual General Meeting held on October 26, 2010.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2011 together with the Directors' and Auditors' reports thereon.

3. To appoint Auditors for the year 2011-12 and fix their remuneration.

Special Business

4. To approve the issue of bonus shares in the ratio of one share for every four shares held (i.e.,25%) as recommended by the Board of Directors in their meeting held on September 26, 2011, and if thought fit, pass the following Resolution as Ordinary Resolution.

RESOLUTION

RESOLVED THAT a sum of Rs. 183,750,000 (One Hundred Eighty Three Million Seven Hundred Fifty Thousand Only) out of the Reserves of the Company available for appropriation as at June 30, 2011, be capitalized and applied for the issue of 18,375,000 (Eighteen Million Three Hundred Seventy Five Thousand) ordinary shares of Rs.10/- each as fully paid bonus shares to the members of the Company whose names will appear on the Register of Members as at the close of business on October 16, 2011 in proportion of one share for every four shares held (i.e. 25%) and that such shares shall rank pari passu in every respect with the existing ordinary shares of the Company.

FURTHER RESOLVED THAT fractional entitlement of the members shall be consolidated into whole shares and sold on the Karachi Stock Exchange. The sale proceeds thereof will be donated as deemed appropriate, by the Board.

FURTHER RESOLVED THAT the Company Secretary be and is hereby authorized and empowered to give effect to this resolution and to do or cause to do all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of bonus shares.

A statement under Section 160(1)(b) of the Companies Ordinance, 1984, pertaining to the Special Business referred above is annexed to this Notice.

By order of the Board

Islamabad
October 4, 2011

Assad Rabbani
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 17, 2011 to October 26, 2011 (both days inclusive). Transfers received in order at the Company's Shares Registrar, M/s Corplink (Pvt) Limited, Wings Arcade, 1-K Commercial, Model Town, Lahore, at the close of business on October 16, 2011 will be treated as in time for the purpose to determine entitlement of bonus shares and to attend the Annual General Meeting.

2. A member entitled to attend and vote at the meeting is entitled to appoint a person/ representative as Proxy to attend and vote in place of the member at the Meeting. The instrument of Proxy duly executed in accordance with Articles of Association of the Company 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.

3. Those members, who have deposited their shares into Central Depository Company of Pakistan (CDC), are requested to bring their Original Computerized National Identity Cards along with Participant's ID number and their account numbers in CDC to facilitate identification at the time of meeting.

4. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless provided earlier) at the time of meeting.

5. Members are requested to notify the change in their mailing address and submit the photocopy of their Computerized National Identity Cards if they have not submitted the same earlier to the Company's Shares Registrar.

Statement under Section 160(1)(b) of the Companies Ordinance, 1984

This statement sets out the material facts concerning the Special Business, given in agenda item No.4 of the Notice, to be transacted at the 27th Annual General Meeting of the Company.

Issue of Bonus Shares

The Directors are of the view that the Company's financial position and its reserves justify the capitalization of free reserves amounting to Rs.183,750,000 (One Hundred Eighty Three Million Seven Hundred Fifty Thousand Only) for the issue of 18,375,000 (Eighteen Million Three Hundred Seventy Five Thousand) ordinary shares of Rs.10/- each as fully paid bonus shares in the ratio of one bonus share for every four ordinary shares held (i.e.,25%). The Directors directly or indirectly, are not personally interested in this issue except to the extent of their shareholding in the Company.

Pursuant to Rule 6 (iii) of the Companies (Issue of Capital) Rules, 1996, the Auditors have certified that the reserves and surplus retained after the issue of the bonus shares will not be less than 25% of the increased Paid-up Capital.

Vision Statement

Our Vision

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 the customers and others through expansion and synthesis of products and services

Mission Statement

Our Mission

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

Our Commitment

- Providing uninterrupted gas supply to customers.
- Maintaining good operational practices.
- Adopting advanced technology, cost effective/efficient operations, increasing operating efficiency and adherence to high environmental standards.
- Exploring and enhancing the potential of our human resources.
- Aligning the interests of our shareholders, human resources, customers and other stakeholders to create significant business value characterized by excellent financial results, outstanding professional accomplishments and superior performance.

Managing Director's Outlook

I am pleased to state that Mari Gas Company Limited has completed yet another year of serving the country by successfully exploiting new hydrocarbon opportunities and enhancing the value of its shares. This Report is a clear manifestation that we have maintained our outstanding performance in all spheres of exploration and production activities. Our mission for the search of hydrocarbon and its delivery to the national energy network is being pursued with the utmost professionalism and innovation. Towards this end, the Company has also, for the first time in its history, embarked upon a research & development initiative to provide the much needed impetus to our dwindling hydrocarbon resources.

We are also proud of our contributions towards the health and education of the people in our concession areas. MGCL's CSR methodology is based on the idea that corporate success and social welfare are interdependent. Recently, MGCL quickly responded to the immediate need of rescue in the rain and flood affected areas of Badin, and relief/ rehabilitation operations in Mari Lease areas. Food, medical services, drinking water and all other civic facilities are still being provided regularly for about 1500 persons registered in tent villages at Mari Lease area. MGCL employees have taken an active interest in these and many other CSR activities and as a consequence, we have seen an upsurge in the employees' morale and commitment.

We are looking forward to a great year ahead by maintaining our traditions of performance and growth through sound business strategies, and by harnessing the innovation and commitment of our employees. We assure you that MGCL's ethos are driven by our desire to promote the National and Company's interests. We are excited about the new challenges and opportunities in the E&P sector, and hope that through the expertise, diligence and dedication of our employees, MGCL shall usher in a new era of prosperity for our nation and its shareholders.

May Allah grant us the fortitude to achieve all that – Ameen

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

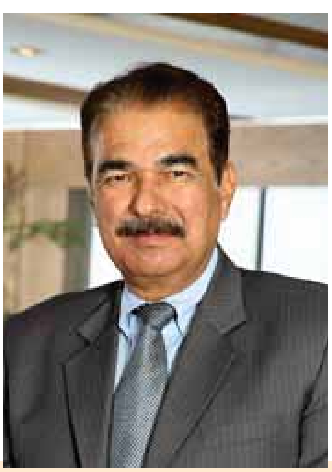
Board of Directors

Lt Gen Hamid Rab Nawaz (Retd)
Managing Director Fauji Foundation / Chairman MGCL Board

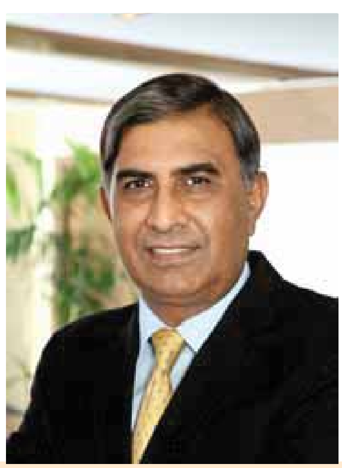
Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO Mari Gas Company Ltd

Mr. Qaiser Javed
Director Finance, Fauji Foundation

Dr. Nadeem Inayat
Director Investment, Fauji Foundation

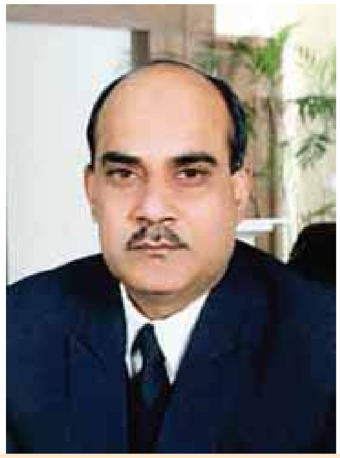


Maj Gen Zahid Parvez (Retd)
Director Welfare (Education), Fauji Foundation



Brig Dr. Gulfam Alam (Retd)
Director P & D, Fauji Foundation

Mr. Sher Muhammad Khan
Director General Petroleum Concessions, Ministry of P & NR



Mr. Pervaiz Akhtar
Financial Advisor, Ministry of P & NR

Mr. Basharat A Mirza
Managing Director, OGDCL

Mr. Muhammad Riaz Khan
Executive Director Production, OGDCL

Mr. Liaqat Ali
Director, MGCL Board

Mr. Manzoor Ahmed
Chief Operating Officer / SEVP - NIT

Mr. Assad Rabbani
Company Secretary

Key Management

Sitting Left to Right:

Mr. Muhammad Asif *(General Manager Finance),* **Lt Gen (R) Raza Muhammad Khan** *(Managing Director / CEO),*
Brig (R) Syed Agha Haider Naqvi *(General Manager Human Resource)*

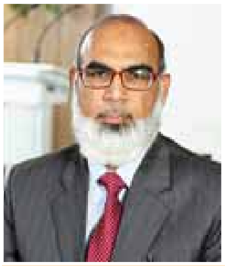
Standing Left to Right:

Brig (R) Muhammad Aslam Khan *(General Manager Admin & Security),* **Mr. Shahid Salim Khan** *(General Manager Operations),*
Mr. Muhammad Khurshid Akhtar *(General Manager Exploration),* **Mr. Assad Rabbani** *(Company Secretary),*
Brig (R) Abdul Rehman Dogar *(General Manager Procurement)*

Not in Picture:

Brig (R) SaleemMahmood Khan *(Resident General Manager, Quetta)*

Management



Muhammad Ali Mughal
Manager Drilling & Allied Services

Asif Ali Rangoonwala
Manager Business Development

Muhammad Liaquat Ali Khan
Incharge Koonj

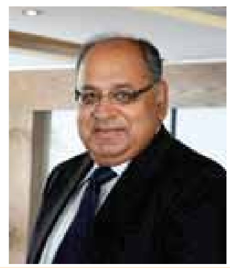
Muhammad Aqib Anwar
Manager Finance

Javed Iqbal Jadoon
Mari Field Manager

Shahid Hussain
Manager Finance Joint Venture

Muhammad Saleem Siddique
Manager Reservoir

Ali Ejaz Rasool Mirza
Manager Accounts

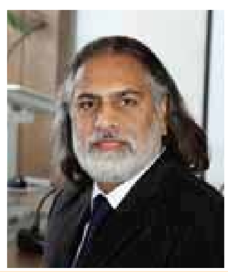


Mahboob Habibi
Head Internal Audit

Tufail Ahmed Khoso
Manager Exploration-I

Major (R) M. Iftikhar-ul-Haq
Resident Manager Quetta

Gp Capt (R) Shamim Ahmad
Manager Procurement



Lt Col (R) Shah Rukh
Manager Projects

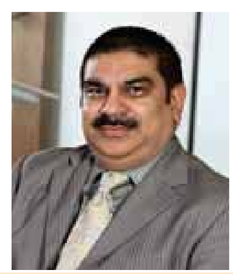
Muhammad Shifaat Alam
Manager Exploration-II

Col (R) Shaukat Hassan
Manager Administration, Daharki

Lt Col (R) Ikram Ur Rahim
Manager Project, Daharki

Muhammad Asim Butt
Manager HSE

Saeed Ahmed Qureshi
Manager Production



Sheikh Naveed Ahmed
Acting Manager HR

Lt Col (R) Altaf Hussain
Acting Manager Administration

Muhammad Ijaz
Acting Manager Planning & Engg.

History of the Company

Exploration Business and its Future Vision

In 1957 when the Company was operating as Esso Eastern Inc., Mari Gas Field was discovered in Daharki, Sindh, Pakistan with original gas in place (GIIP) estimate of 2.38 TCF. Over the years with the phased development of the Field and the subsequent reservoir evaluations, the GIIP of the Field enhanced to 10.751TCF, thus making Mari one of the largest gas field in Pakistan in terms of balance reserves.

In May 1983 Fauji Foundation, a major Pakistani group, along with OGDCL and GOP acquired the entire business operations of Esso Eastern Inc. in Pakistan which Comprised the Mari Gas Field.

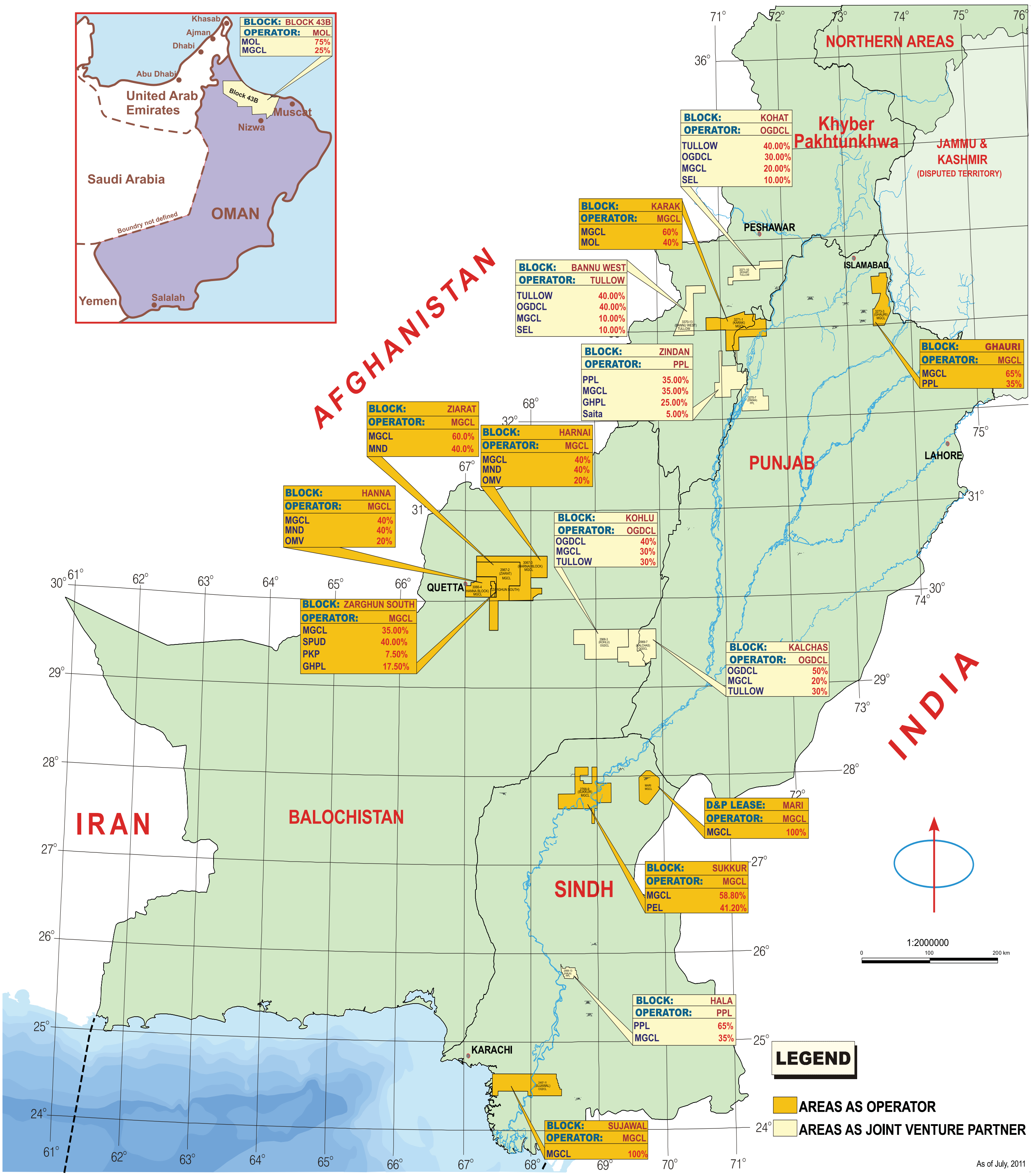
During December 1984, the business was reorganized and incorporated as Mari Gas Company Limited (MGCL) which took over the assets, liabilities and operational control of Mari Gas Field.

MGCL primarily operated as a production company till 1997, developing the discovered Habib Rahi Reservoir in phases for supply of gas to the new fertilizer plants. Simultaneous with these development phases, the Company also pursued appraisal activities within its Mari D&P Lease by drilling stepout wells to determine the boundaries of Habib Rahi Reservoir.

The hallmark of MGCL's growth and expansion is also represented by its entry into exploration activities in year 2001, on its initiative and with Government's approval.

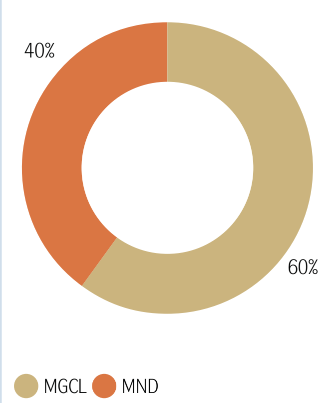
In its exploration segment, MGCL is operating total seven exploration blocks i.e. three exploration blocks (Ziarat, Hanna & Harnai) and one D&P Lease (Zarghun South) in Balochistan, two exploration blocks in Sindh (Sukkur & Sujawal), one in Khyber Pakhtunkhwa (Karak) and one in Punjab (Ghauri). In addition, the Company is also joint venture partner in two exploration blocks (Kohlu & Kalchas) in Balochistan, three exploration blocks (Kohat, Bannu West & Zindan) in Khyber Pakhtunkhwa and one block (Hala) in Sindh. Moreover, the Company is also joint venture partner in block 43B with 25% working interest in Oman with MOL.

MGCL Concessions and Working Interests

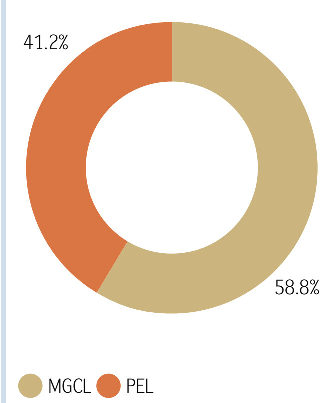


MGCL Operated Blocks & Development and Production Leases

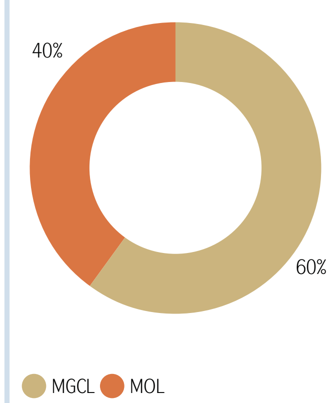
Ziarat Block



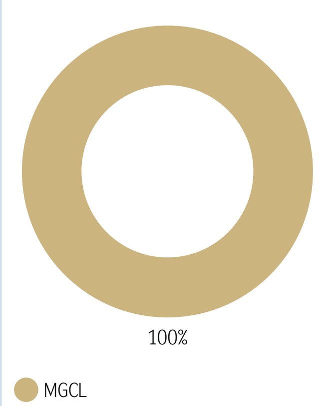
Sukkur Block



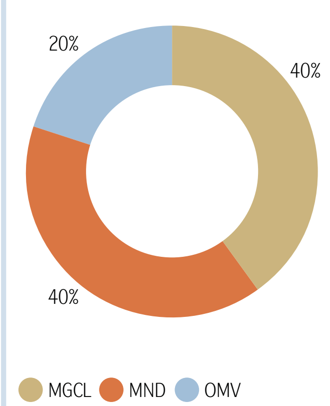
Karak Block



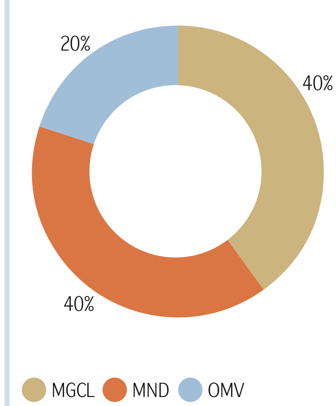
Sujawal Block



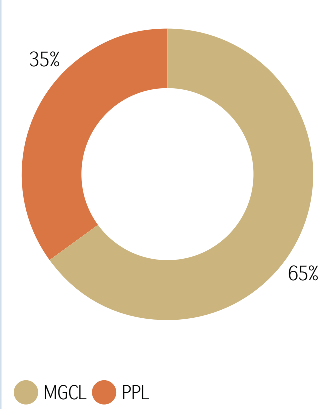
Hanna Block



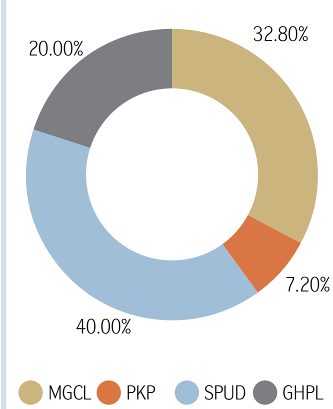
Harnai Block



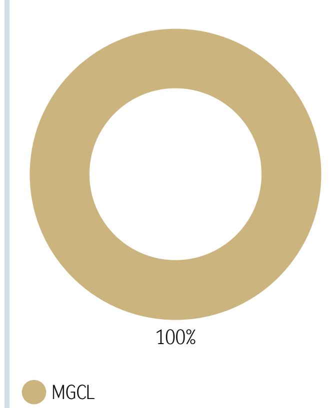
Ghauri Block



Zarghun South D&P

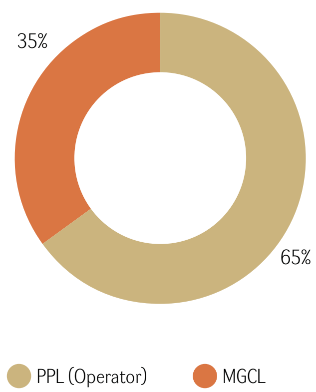


Mari D&P

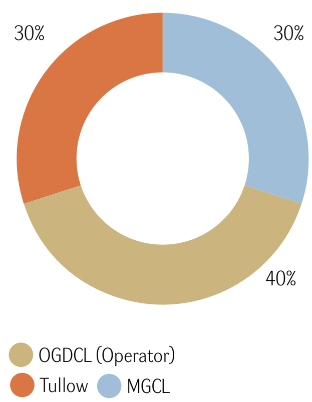


MGCL Non-operated Blocks

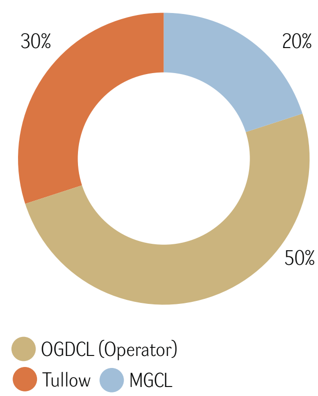
Hala Block



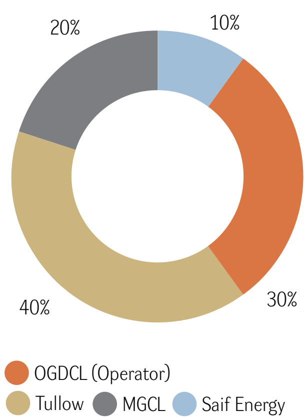
Kohlu Block



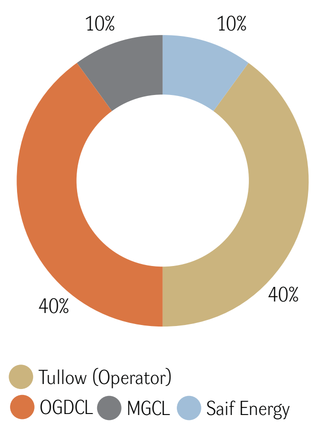
Kalchas Block



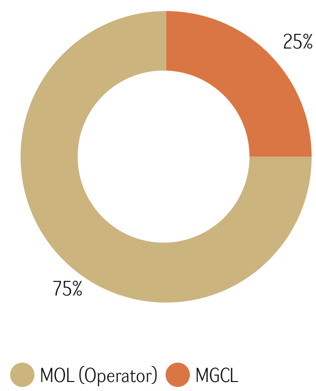
Kohat Block



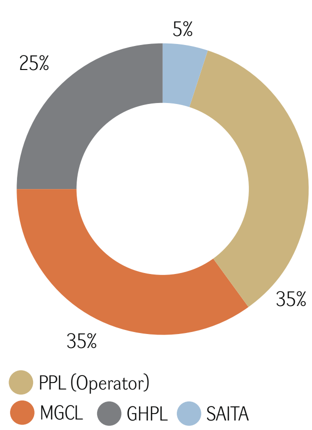
Bannu West Block



Oman 43B (Overseas Block)



Zindan Block



Integrated Management System Policy

To realize our strategic vision and to achieve professional excellences in petroleum sector, we are committed to meet requirements of Integrated Management Systems for Quality, Environment, Occupational Health & Safety and Information Security 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. We are managing our business information security by protecting all identified valuable information resources and systems from unauthorized disclosure, usage, modification or destruction, in a manner coherent with its confidentiality, integrity and availability.

ISO 9001 : 2008

ISO 14001 : 2004

OHSAS 18001 : 2007

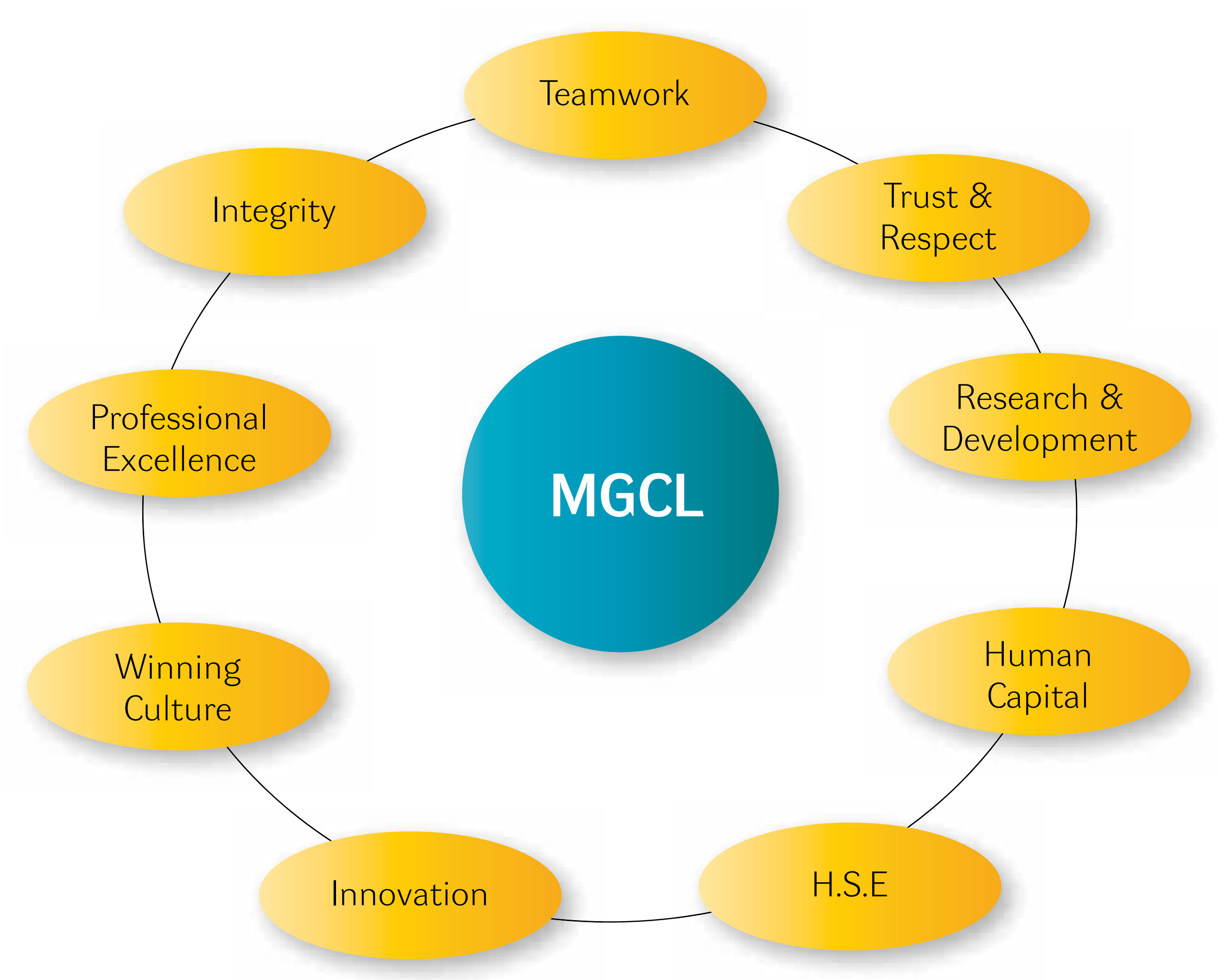
ISO/IEC 27001 : 2005

Core Values

Values are deeply ingrained principles that guide organizational actions. The core values are central and enduring tenets of a successful organization.

MGCL is governed by its core values which distinguish us and guide our actions while shaping our corporate culture and reflecting the behavior essential to our relationship with all the stakeholders.

The core values MGCL subscribes to are:



Code of Ethics

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.

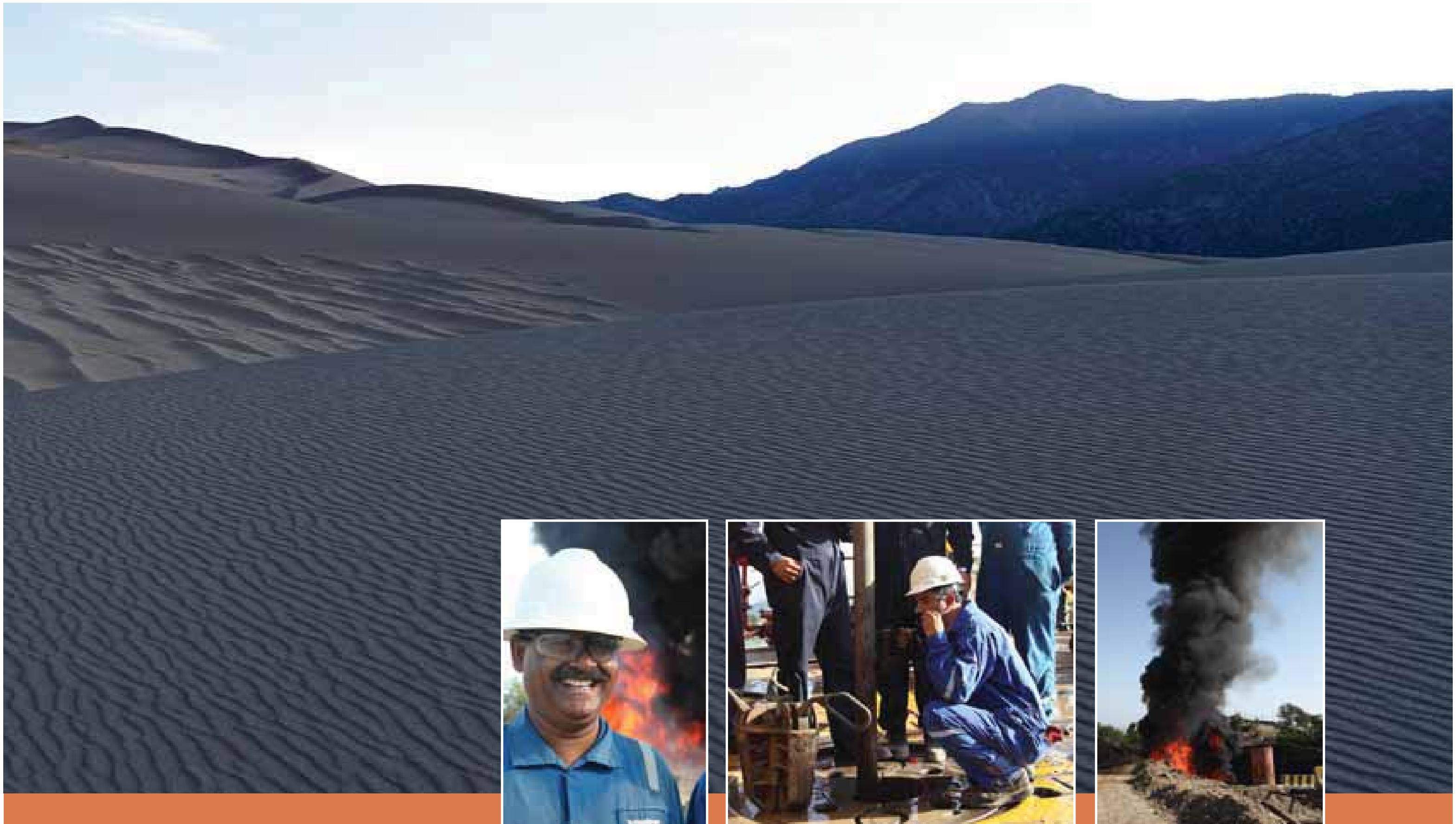
Confidentiality
Confidentiality of the Company's internal confidential information must be maintained and upheld, which includes proprietary, technical, business, financial, joint-venture, customer and employee information that is not available publicly.

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.

Social Events

MGCL Celebrates Pakistan Day Celebration

On a pleasant night of March 22, 2011 the Management staff of MGCL ,alongwith their families, gathered at the Rawalpindi Golf Club, Banquet Hall, to celebrate the momentous occasion of Pakistan Day in a befitting manner and with pride and grace.

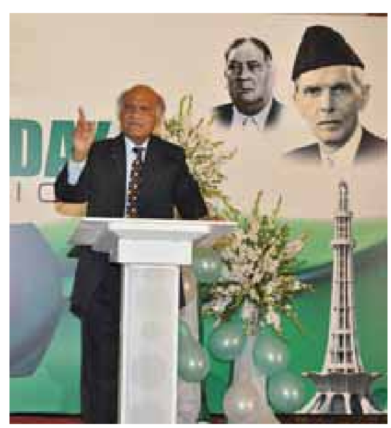
The décor and the ambience of the hall were reflective of the occasion, adorned with a backdrop and pictures of personalities of the Pakistan Movement. Participants arrived with their families smartly dressed and proudly wearing flag pins, and blended into the milieu of nationalism. The participants were encouraged to wear attire that represented the colours depicted in Pakistan flag, and they responded so well that a couple of them won prizes for their attires. A musical group was playing national tunes in the background to entertain the audience.

The celebrations commenced with an Audio Visual talk on Pakistan Resolution by the master of ceremony Ms Sohab Haider, AM Finance. She highlighted the events that created the need for a separate homeland for Muslims and the Pakistan Resolution through breathtaking and rare sounds and images.

It was especially delightful to see the children filled with pure and unbridled enthusiasm participating in the quiz, singing and drawing competitions (all 23rd March related) arranged for them. The children also impressed everyone with their extempore speeches on the occasion and continuously won the applause of the audience.

Without a doubt the highlight of the night was the candid talk on the occasion by noted poet and writer Professor Anwer Masood. He weaved an awe-inspiring and moving image of the Pakistan Movement. The audience listened with great reverence, while he shared his personal memories of the era and advised them to focus on education for the sake of individual and national prosperity.

Just before the conclusion of the celebrations, Lt Gen (R) Raza Muhammad Khan Managing Director / CEO MGCL distributed prizes and souvenirs amongst the winners and participants of various categories. Before proceeding for dinner served at the terraces, the audience stood on their seats and sang the national anthem to conclude the ceremony – with pride and grace.



Annual Get-togethers

After very long time old tradition of Long Service Award had revived again. A function was arranged on 14th may at Hotel Marriott Islamabad, which was attended by all management employees, their families, JV partners and Govt. Officials.

The long service award was awarded to seven officials who had put in more than twenty eight years of meritorious services, which contributed tremendously towards the flourishing & growth of the Company.

After the awards all the participants were served with delicious dinner. This was followed by traditional cultural folk music with Violin by Ustad Raees, Al-Ghoza by Akhtar Kamiso Khan & Benja by Saleem that was enjoyed by all.

Another function was arranged on May 15 at TopiRukh Auditorium, Rawalpindi. The function was organized in the honour of all non-management and contractual staff of Head Office, Islamabad with their families. General Managers and Managers with their families were amongst the guests.

The function was organized in three stages. First, the Managing Director awarded the company shields and prize bonds to the employees of various departments, who had put in more than fifteen years of meritorious service which contributed tremendously towards the flourishing & growth of the company.

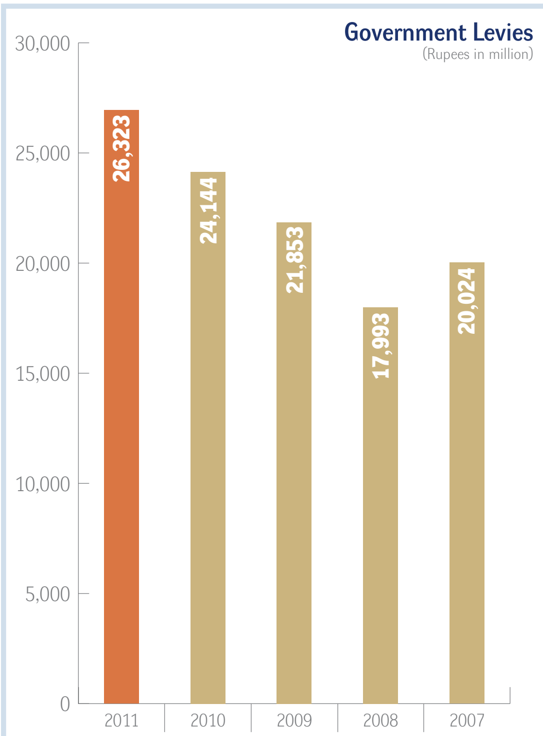
After the awards all the guests were served with dinner and then followed by the most awaited entertainment segment, a professional group of entertainers by the name of "Artillery Troupé'. The audience enjoyed some really good parodies, skits, songs and music displayed by the Troupe. The laughter and big round of applause by the audience was an evidence of their enjoyment.

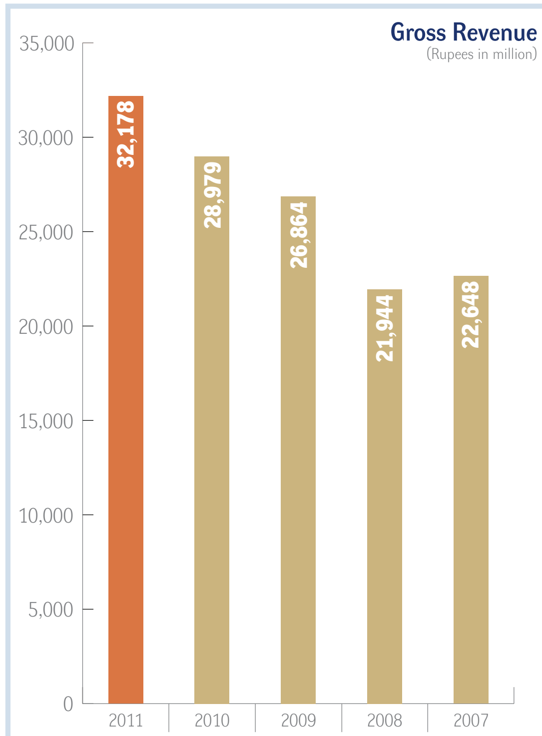
Financial Highlights

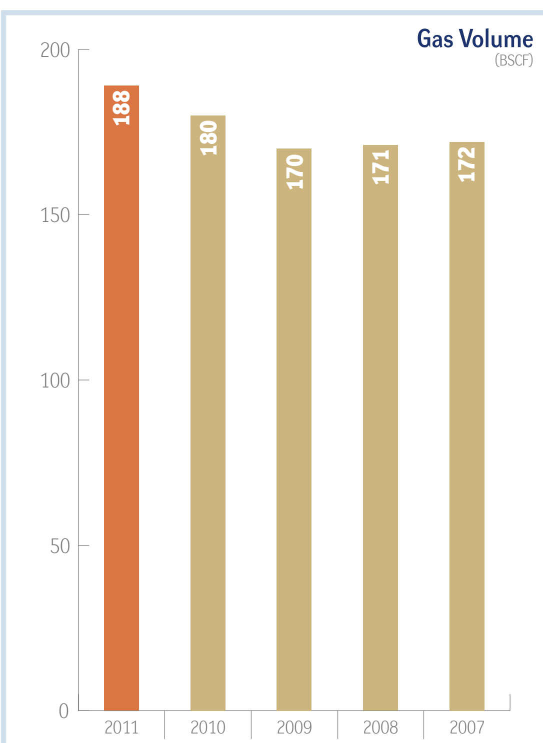
		Year 2010-11	Year 2009-10
Revenue	Rupees in million	32,177.82	28,979.37
Government levies	Rupees in million	26,323.05	24,144.02
Profit before tax	Rupees in million	2,442.16	1,351.09
Profit after tax	Rupees in million	1,725.30	1,185.95
Dividend per share	Rupees	3.34	3.10
Property plant & equipment - at cost	Rupees in million	7,417.33	6,699.57
Number of shares issued and subscribed	Share In Million	73.50	73.50

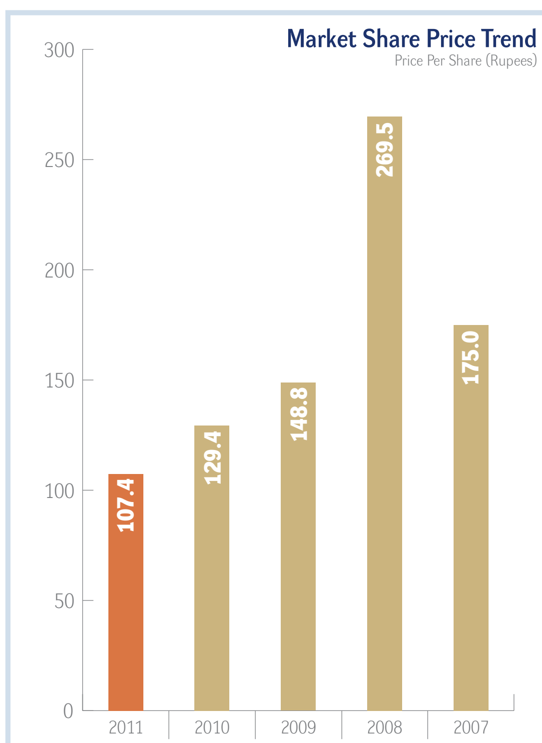
We have always invested in the ability of our people to apply imagination and search for innovations. We will continually equip them with the resources they need to succeed

Financial Highlights

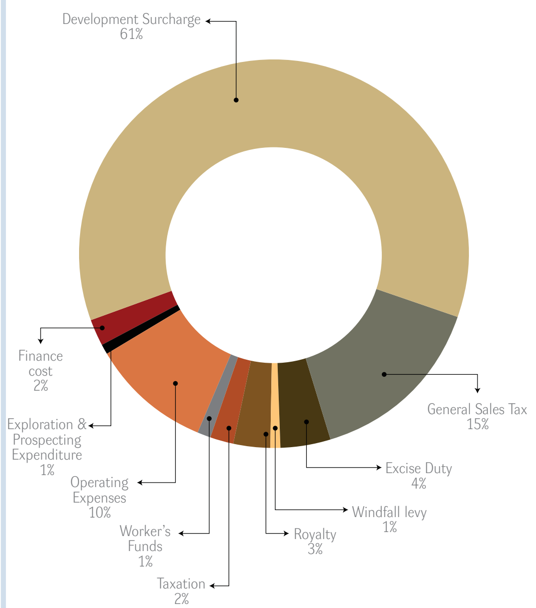




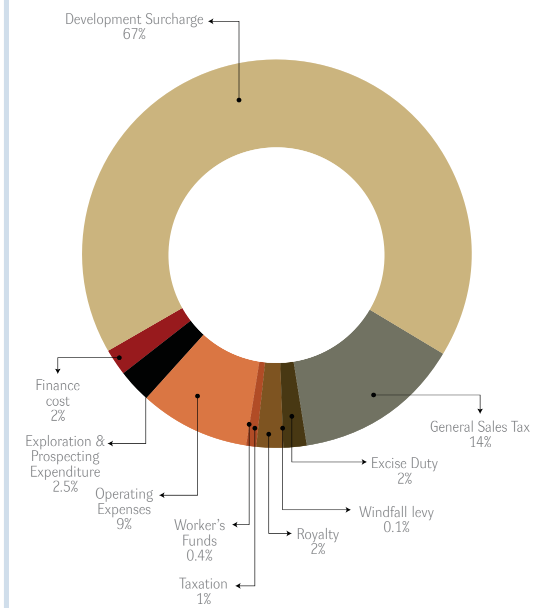




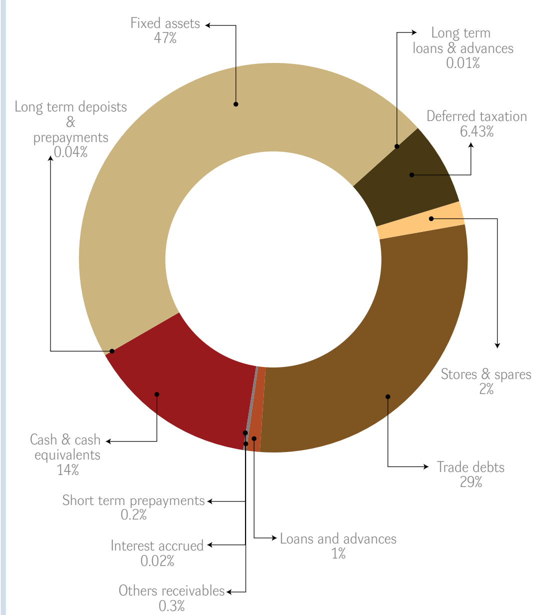
Application of Revenue Earned
For The Year 2010-11



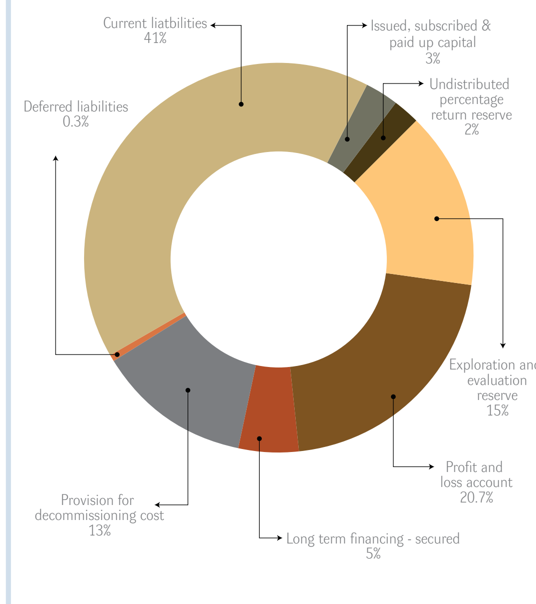
Application of Revenue Earned
For The Year 2009-10



Assets
2010-11



Equities & Liabilities
2010-11



Ten Years at a Glance

	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
	(Rupees in million)									
FINANCIAL										
Revenue	32,177.82	28,979.37	26,864.38	21,943.97	22,647.80	20,018.14	16,059.63	14,308.22	12,564.22	11,441.45
Government levies Income tax, workers' funds,royalty, excise duty, sales tax and surcharge on gas	26,323.05	24,144.02	21,852.69	17,993.02	20,024.00	17,771.56	14,117.36	12,195.90	10,594.20	9,905.29
Net Turnover	6,809.69	5,240.12	5,789.20	6,697.20	3,677.11	2,811.71	2,693.94	2,762.78	2,436.17	1,681.26
Operating profit	2,586.39	1,425.71	2,545.84	4,112.10	1,237.48	344.09	656.49	990.97	1,149.98	507.67
Net profit before tax	2,442.16	1,351.09	2,394.73	3,960.31	1,382.14	602.64	677.93	936.82	1,052.35	402.99
Net profit after taxation	1,725.30	1,185.95	2,151.92	2,560.41	683.89	189.25	361.52	519.80	646.01	394.58
Issued & paid up capital	735.00	735.00	367.50	367.50	367.50	367.50	367.50	367.50	367.50	367.50
Reserves	9,935.42	8,455.83	7,865.22	5,381.53	3,390.12	2,315.15	2,239.75	1,990.21	1,581.25	1,045.48
Property, plant & equipment	7,417.33	6,699.57	6,626.01	4,861.4	2,881.92	3,395.29	3,726.83	3,731.88	3,566.37	1,915.39
Net current assets	1,644.98	1,945.15	898.45	861.62	942.62	805.72	808.73	882.37	701.01	578.14
Long term financing, provisions & deferred liabilities	4,917.20	4,257.08	3,108.47	2,143.80	1,361.60	1,528.39	1,939.45	2,265.83	2,326.72	1,087.84
INVESTOR INFORMATION										
Earning per share (EPS)	5.17	4.58	3.71	6.43	5.68	5.06	4.45	4.07	3.79	3.59
Earning per share - as per GPA	23.47	16.14	29.28	69.67	18.61	5.15	9.84	14.14	17.58	10.74
Debtor turnover	80	85	66	33	22	20	21	22	42	63
Market value per share at the end of year	107.37	129.38	148.83	269.53	175.00	126.50	194.65	82.95	67.05	37.55
Price earning Ratio	20.77	28.25	20.06	41.92	30.81	25.02	43.76	20.41	17.69	10.45
Dividend	245.71	227.85	118.23	119.00	118.26	113.85	111.98	110.84	110.25	110.25
Cash dividend per share	3.34	3.10	3.22	3.24	3.22	3.10	3.05	3.02	3.00	3.00
Dividend Yield	3.11%	2.40%	2.16%	1.20%	1.84%	2.45%	1.57%	3.64%	4.47%	7.99%
Dividend payout ratio	64.60%	67.69%	43.36%	50.36%	56.66%	61.29%	68.50%	74.19%	79.16%	83.52%
Return on capital employed	20.26%	13.51%	23.95%	49.72%	30.20%	15.36%	15.71%	21.09%	27.26%	23.23%
Debt : Equity ratio	10.86 : 89.14	15.76 : 84.24	12.72 : 87.28	7.5 : 92.5	00 : 100	04 : 96	11 : 89	19 : 81	29 : 71	42 : 58
Liquidity ratio	1.11	1.20	1.08	1.16	1.19	1.16	1.19	1.29	1.21	1.12
Debt service ratio	2.97 : 1	5.07 : 1	9.55 : 1	10.40 : 1	3.17 : 1	2.32 : 1	2.96 : 1	3.7 : 1	5.9 : 1	3.0 : 1
NATURAL GAS										
Development & production leases (sq. kilometers)	969.30	969.30	969.30	969.30	969.3	969.3	969.3	969.3	969.3	969.3
Ultimate recovery of proved reserves (BSCF)	6,988.00	6,988.00	6,988.00	6,800.00	6,800.0	6,800.0	6,800	6,309	6,309	6,309
Cumulative production (BSCF)	4,009.7	3,821.9	3,642.2	3,472.5	3,301.1	3,128.6	2,958	2,795	2,636	2,480
Number of producing wells	99	98	89	88	86	84	83	77	64	64
Production (BSCF)	187.8	179.7	169.7	171.4	172.5	171.0	162	159	156	150
Daily average (BSCF)	0.515	0.492	0.465	0.468	0.473	0.469	0.445	0.434	0.428	0.411
OIL										
Production (BBL)	130,093	62,212	41,510	–	–	–	–	–	–	–
LPG										
Production (MT)	5,031	1,231	–	–	–	–	–	–	–	–

Pattern of Shareholding

as at June 30, 2011

No. of Shareholders	Shareholding			Total shares held
618	1	TO	100	35,885
912	101	TO	500	299,266
551	501	TO	1,000	453,194
700	1,001	TO	5,000	1,433,475
97	5,001	TO	10,000	775,399
93	10,001	AND	ABOVE	70,502,781
2,971				73,500,000

Categories of Shareholders as at June 30, 2011

Categories of Shareholders	Number	Shares held	Percentage
NBP, NIT & ICP			
National Bank of Pakistan & NBP Trustee Department - NIT FUND	1	5,615,216	7.6397
Investment Corporation of Pakistan	1	5,600	0.0076
Directors, Chief Executive Officer and their spouses and minor children			
Mr. Liaqat Ali - Director representing General Public	1	500	0.0007
Executives	11	27,600	0.0376
Banks, DFIs, NBFIs, Insurance Companies, Leasing Companies and Modarabas & Mutual Funds	19	2,527,111	3.4382
Joint Stock Companies	62	1,658,366	2.2563
Individuals	2,869	4,845,107	6.5920
Shareholders holdings ten Percent or more voting interest in the Company			
Fauji Foundation	1	29,400,000	40.0000
Government of Pakistan	1	13,377,000	18.2000
Oil & Gas Development Company Limited	1	14,700,000	20.0000
Others	4	1,343,500	1.8279
	2,971	73,500,000	100.00

Directors' Report to the Members

Lt Gen Hamid Rab Nawaz HI(M) (Retd)
Chairman, MGCL Board

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, 2011.

FINANCIAL RESULTS

The profit and appropriations for the year are as follows:

	Rs ' 000
Profit	
Profit for the year under review after taxation	1,725,300
Un-appropriated profit brought forward	5,291,353
	7,016,653
Appropriations	
First interim dividend @ 23.43% per share declared in February 2011	172,211
Second interim dividend @ 10% per share declared in June 2011	73,500
Undistributed Percentage Return Reserve	126,015
Total appropriations for the year	371,726
	6,644,927
Represented by	
Exploration and evaluation reserve	1,256,926
Profit and loss account	5,388,001
	6,644,927

The directors have decided to retain Rs 126.015 million representing the balance of percentage return reserve relating to the year ended June 30, 2011 under the provision of Mari Gas Wellhead Price Agreement (The Agreement). Therefore, the aforesaid amount has been transferred to "Undistributed Percentage Return Reserve". Pursuant to adoption of IFRS-6 which is applicable to Company's financial statements with effect from July 01, 2007, an amount of Rs 1,256.926 million has been shown as exploration and evaluation reserve and the corresponding amount of exploration expenditure has been shown as exploration and evaluation assets.

Gross sales for the year under review increased to Rs 31,402 million from Rs 28,491 million in 2009-10 (10.22% increase) due to increase in gas sales volume from 179,752 to 187,785 MMSCF which is as per customer's withdrawal / requirement. In addition, 130,093 barrel of condensate and 5,031 metric ton of LPG was produced and sold in the current period against 2,516 barrel of crude oil, 59,696 barrel of condensate and 1,231 metric ton of LPG in the comparative

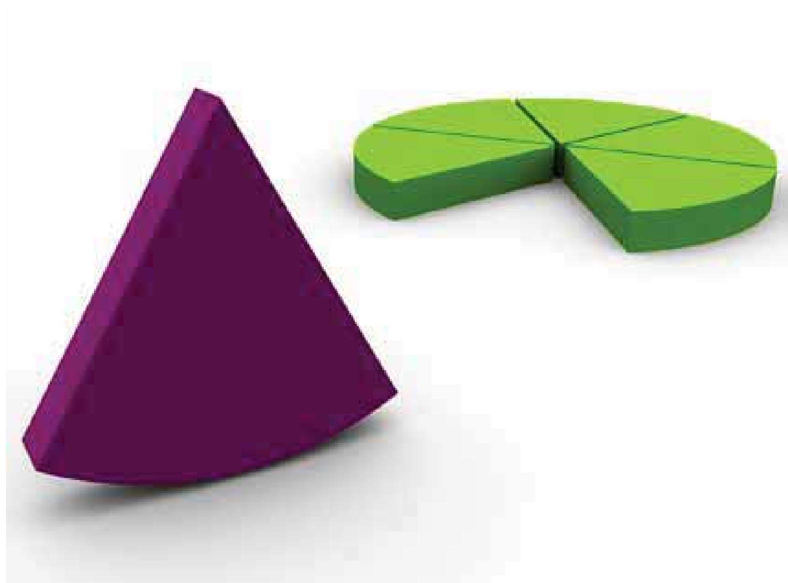
Directors' Report to the Members

period. Company's contribution to the Government Exchequer amounted to Rs 26,943 million against Rs 24,144 million in the last year. The operating expenses amounted to Rs 2,997 million against Rs 2,409 million for last year.

The operating results in the financial statements for the year show profit after tax of Rs 1,725 million as against Rs 1,186 million of the previous year. Higher well head price and classification of exploration and prospecting expenditure as exploration and evaluation reserve and increase in other income were the major reasons for increase in profitability. This was partially offset with increase in other operating expenses, Royalty, Finance cost and Workers' Funds expenses.

The rate of return to the shareholders for the year under the revised gas price formula has increased proportionately to 34.60% against last year of 33.43% due to increase in production level.

Earning per share (EPS) on the basis of distributable profit increased to Rs 5.17 per share from Rs 4.58 per share last year. However, EPS for the year on the basis of profit and loss account (including undistributable balance) increased to Rs 23.47 per share as compared to last year's Rs 16.14 per share.



CASH FLOW STRATEGY

During the year an amount of Rs 2,527 million was generated from operating activities of the Company which was used mainly to undertake exploration activities, capital expenditures, payment of dividends to the shareholders, repayment of long term financing and finance cost to banks.

DIVIDENDS

The Company has paid 1st interim dividend of 23.43% (2010: 21.00%) on ordinary shares in February 2011 followed by 2nd interim dividend of 10.0% (2010: 10.0%) on ordinary shares in June, 2011. This makes the total cash dividend payout to the ordinary shareholders during the year to 33.43% (2010: 31.00%) as provided in the Agreement.

FOREIGN EXCHANGE SAVINGS AND GOVERNMENT REVENUES

MGCL is a major contributor to the national economy. The Company's share of production of natural gas, Condensate and LPG from its Mari field and other joint ventures for the financial year 2010-11 in terms of energy is equivalent to 24,650,437 barrels resulting in foreign exchange saving of around Rs 186 billion for the current year assuming an average crude oil price of US$ 88.05 per barrel prevalent during the year.

In addition, payments to the Government exchequer by the Company was around Rs 26,943 million during the year (Rs 24,144 million during 2009-10) on account of taxes, royalties, excise duty, sales tax and gas development surcharge.

BENAZIR EMPLOYEES STOCK OPTION SCHEME (BESOS)

On 14 August 2009, the Government of Pakistan (GoP) launched Benazir Employees Stock Option Scheme (BESOS) whereby the GoP

Directors' Report to the Members

transferred 1,323,000 shares (including bonus shares issued subsequently) to MGCL Employees Empowerment Trust without any consideration subject to transfer back of these shares to the GoP as provided in the Trust Deed. Accordingly, the GoP's shareholding in the Company has reduced to 18.2 % from 20.0 % with effect from 14 August 2009. As per the Trust Deed such shares have been allocated through Unit Certificates to eligible employees in proportion to their entitlement on the basis of length of service. The Trust is entitled to receive dividends declared on or after 14 August 2009 and 50% of such dividends is being distributed among employees on the basis of units held while the balance 50% is being transferred to the Privatization Commission, Government of Pakistan.

Under the scheme on ceasing to be an employee, an employee shall surrender the Unit Certificate(s) to the Trust and will receive compensation for the surrendered units on the basis of the value of these Units calculated in accordance with the formula given in the Trust Deed.

OPERATIONS

The company continued un-interrupted gas supply throughout the year under review to all its customers namely, Engro Fertilizer Limited, Fauji Fertilizer Company Limited, Fatima Fertilizer Company Limited, Pakistan Electric Power Company (PEPCO), Foundation Power Company Daharki Limited and Sui Southern Gas Company Limited. The gas produced during the year ended June 30, 2011 was 187,785 MMSCF at a daily average of 515 MMSCF as against 179,752 MMSCF at daily average of 492 MMSCF for the corresponding period of last year as per the requirement/withdrawal of the customers.

In addition, 130,093 barrel of condensate and 5,031 metric ton of LPG was produced and sold in the current period against 2,516 barrel of crude oil, 59,696 barrel of condensate and 1,231 metric ton of LPG in the comparative period.

GOP vide letter dated April 28, 2010 directed to divert 60 MMSCFD gas from fertilizers after proportionate reduction from their allocation to PEPCO to mitigate the need of gas for power sector. Accordingly, 60 MMSCFD gas supply to PEPCO w.e.f April 28, 2010 is being ensured which has been curtailed from fertilizers on prorata basis from their GSAs allocation.

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

FUTURE PROSPECTS, PLANS AND STRATEGY

Commencement of Goru-B Gas Production

Commissioning of Foundation Power Company Daharki Limited (FPCDL) has been completed and gas is being supplied to their plant as per their requirement. ECC has allocated unutilized gas by M/s Star Power (44 MMSCFD) to PEPCO through SNGPL for a period of two years. In this regards tripartite meetings have been conducted with SNGPL and PEPCO. MGCL has also submitted the "Draft Term Sheet" for review and finalization.

Deployment of Rig Mari-1

Mari Rig-1 ZJ-50 is deployed on rental to drill M/s PPL's Bhit-Shah well in Hala Block. Bhit shah well was spud-in on 25th April, 2011. The well has been drilled to 3730 m (TD) on August 11, 2011. Recorded open hole logs, ran and cemented 7" liner.

Development of Zarghun Gas Field

Project is stalled due to poor law and order situation and negative economics.

In a workshop held with joint venture partners, it has been agreed to complete prerequisite for initiating 3rd party certification for Zarghun as tight gas reservoir.

EXPLORATION ACTIVITIES

The company's working interests in onshore exploration licenses in Pakistan and overseas are as follows:

Sr. No.	Name of Block	MGCL's Working Interest	Name of Operator
1	Ziarat Exploration License	60%	MGCL
2	Karak Exploration License	60%	MGCL
3	Ghauri Exploration License	65%	MGCL
4	Sukkur Exploration License	58.8%	MGCL
5	Hanna Exploration License	40%	MGCL
6	Harnai Exploration License	40%	MGCL
7	Sujawal Exploration License	100%	MGCL
8	Hala Exploration License	35%	PPL
9	Zindan Exploration License	35%	PPL
10	Kohlu Exploration License	30%	OGDCL
11	Kalchas Exploration License	20%	OGDCL
12	Kohat Exploration License	20%	OGDCL
13	Bannu West Exploration License	10%	Tullow Pakistan
14	Oman 43B (Overseas Block)	25%	MOL

OPERATED BLOCKS

Ziarat block

2D seismic data acquisition of 170 line km over Khost discovery area, central and southern parts of the block was initially scheduled during 1st quarter 2011. The Company could not acquire the said seismic due to non – availability of FC troops for the security cover. However, it is now planned to commence the planned seismic during January 2012, soon after the completion of 2D seismic data acquisition in Harnai Block. The objective of seismic data acquisition is to appraise the Khost discovery and also to evaluate the remaining hydrocarbons potential of the block.

Directors' Report to the Members

In order to carry out rigless Nitrogen kick off activities to induce flow at Khost Well # 3, MGCL established temporary infrastructure, mobilized its professionals and service company's personnel/equipment. Kick off operations were carried out and on the basis of kick off results, JV partners have agreed to install Jet Pump to produce the well. Bidding process for purchase/rental of Jet Pump is in progress.

Karak block

Exploratory well Halini # 1 was spud-in on January 07, 2011, and reached its TD of 5350m on July 26, 2011. Subsequently, based on wireline logs and drilling data, five promising zones have been selected in Datta, Samanasuk, Lumshiwal/Hangu, Lockhart and Sakesar formations. Presently, the well is under testing.

Sukkur block

Initially, well Mian Miro-1 was planned to be spud-in during 1st quarter 2011, with the objective to complete the well before the monsoon season, i.e. June to September 2011. However, the location of the well is falling in environmentally protected area and NOC of EIA from Sindh Environment Protection Agency (SEPA) was not received till the said planned spud-in / completion period. Therefore, the spud-in of well was postponed due to weather window and now the well is planned to be spud-in during January/ February 2012.

In order to resume the Extended Well Test operation which was suspended due to increase of H2S, Amine Sweetening Unit (ASU) having capacity of 10 MMSCFD has been received at site. Installation of ASU is in progress. Commissioning of ASU is expected to commence in the 2nd week of September after which supply of sweet gas from Koonj-1A to SNGPL is expected by end September / early October 2011.

Hanna block

Based on the interpretation /

mapping of newly acquired 2D seismic data, a prospect has been firmed-up for committing an exploratory well. Accordingly, MGCL intends to firm-up the optional well for entering into 3rd license year w.e.f October 21, 2011. However, presently, drill or drop option is being evaluated to decide way forward.

Harnai block
M/s BGP mobilized its crew on July 18, 2011 for acquisition of 200 line km 2D seismic data under elaborate FC security cover for delineation of a prospect for drilling of a committed exploratory well.

Presently, line survey / lay out is in progress and recording is expected to be commenced by end of September 2011. It is expected that the said project would be completed by December 2011

Sujawal block
Long Duration Test was conducted at Sujawal Well X-1 from January 24, 2011 to February 13, 2011 to monitor the reservoir characteristics.

Subsequently, 3rd Party reserves evaluation / certification study by M/s DeGolyer and MacNaughton Canada Limited is in progress. Based on the results of the said study and integration of in-house G&G studies, the decision on exploration license and commerciality of Sujawal discovery will be finalized.

SSGCL has agreed to accept Sujawal gas subject to Government's allocation. Meetings with SSGCL are being conducted to resolve gas supply / processing related issues.

Accordingly, DGPC has been requested for six months extension up to December 20, 2011 in 3rd license year.

Ghauri block
Assignment of MGCL's 35% working interest to PPL has been executed on July 11, 2011. Reprocessing of old seismic data of 951 line km was

Directors' Report to the Members

Sheikhan X-1 is on production since December 2010. 898 MMSCF (MGCL share 179 MMSCF) of Gas and 5,790 barrels (MGCL share 1,158 barrels) of Condensate were produced and sold from the well till June 30, 2011.

The well production was initially 8 to 10 MMSCFD which has now reduced to 1 MMSCFD due to increase of water production. Operator carried out remedial work for water shut off but could not succeed.

completed on July 31, 2011 by M/s SAGeo, Islamabad. Presently, preparations are in hand to start interpretation / mapping, which would help to plan 2D/3D seismic over the potential leads.

NON OPERATED BLOCKS

Hala block

The 2nd exploratory well Bhit Shah X-1 was spud-in on April 25, 2011. The well was planned to drill down to a total depth of 3724m with the objective to test the hydrocarbons potential of different sand units of Lower Goru Formation. The well has successfully been drilled down to a total depth of 3730m in Lower Goru sands. Presently, preparations are in hand to test the Upper Basal Sandstone of Lower Goru Formation.

Adam X-1 is on production since December 2009. 4,364 MMSCF (MGCL share 1,527 MMSCF) of Gas, 362,599 barrels (MGCL share 126,909 barrels) of Condensate and 14,409 MT (MGCL share 5,043 MT) of LPG were produced and sold from the well during the financial year 2010-11.

Kohlu block

Exploration activities in the block are suspended due to security clearance.

Kalchas block

A technical workshop was held on August 25, 2011 to discuss the seismic data processing results by FSI and its interpretation. Presently, in-house review of the said interpretation is in progress to decide the way forward.

Kohat block

The 2nd exploratory well Jabbi-1 was spud-in on May 25, 2011. The planned total depth for the well is 3000m in Shinawari Formation to test the hydrocarbons potential of Lockhart, Hangu and Lumshiwal formations. Presently, drilling is in progress and current depth is 2538m in Panoba Formation as of September 09, 2011.

Bannu West block

Exploration activities in the block are suspended due to security clearance.

Oman 43B block (Overseas block)

Subsequent to processing of newly acquired 67 L.km 2D seismic data, the interpretation / mapping has been completed during 2nd quarter 2011.

However, presently, drill or drop option is being evaluated to decide way forward.

Zindan block

The Operator has completed the Geological Field Work of the block. Based on the said fieldwork, Operator has planned to carry out seismic data acquisition over Marwat and other promising surface structures to firm-up a prospect for drilling of an exploratory well. The volume of 2D seismic data acquisition will be finalized by the JV Partners in a Technical Workshop to be held shortly.

New Areas

The Company continues to pursue its evaluation of potential sedimentary basins of the country to identify new exploration areas as well as assessing prospects and negotiating terms for Company's participation in the already awarded blocks through Farm-in arrangements with other companies.

RISK MANAGEMENT AND OUTLOOK

MGCL's growth strategy is based on its corporate vision to become a leading player in Pakistan's Energy Sector, characterized by its excellent financial performance, professional accomplishments, operational acumen and strict adherence to high environmental standards, by developing its core upstream operations and expanding into profitable downstream sector.

The core of MGCL's business is the upstream sector. It has developed a well-balanced portfolio of prospective upstream assets where it is currently exploring its potential for contributing to the future energy supplies of the Country to reduce the nation's dependence on imports.

Besides continuing uninterrupted supply of gas from Mari Field, the Company's current and short-term plans include aggressive exploration efforts in Karak, Hanna, Harnai, Sukkur and Ghauri blocks and implementing field development projects viz. Zarghun South, Sukkur, Ziarat and Sujawal. Whereas the medium to long term plans of the Company are to further expand its diversified asset portfolio with an optimum blend of prospective hydrocarbon basins and focus on the tight gas/shale gas potential in its operated lease and exploration acreages.

Company strategy is to keep pursuing opportunities in the prospective frontier areas where it can create value by leveraging its operational expertise, sound financial base, project management skills and the capabilities of its experienced workforce.

In line with international best practices, MGCL is in the process of setting up a dynamic R&D centre with an outlook to meet

Directors' Report to the Members

the challenges faced by the Country's energy sector in general and by the petroleum sector in particular.

The Company has thus earmarked substantial resources with a commitment to develop its R&D capabilities in pursuit of technologies which would realize the full potential of our oil and gas business. As part of our research, MGCL shall be working on potential game-changing technology focused on technical skills and technology around exploration, unconventional resources, enhanced oil recovery and new project execution methodologies to meet its long-term goals. This is planned to be accomplished through research partnerships, as well as traditional relationships with leading companies, joint industry projects, service providers and the leading academic institutions.

Integrating results from these research efforts with MGCL's strengths in conventional analysis and field development would allow the Company to develop unconventional assets in a more economically efficient manner.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

Management has a long-standing HSE commitment to the highest standards for the health and safety of employees and other stakeholders and subsequently protection of environment while carrying out operational activities at site.

At MGCL, we believe that essence of true achievement is the continual improvement which is evident by following few milestones:

- Successful completion of IMS & ISMS Surveillance Audit without any major non compliance.
- For the first time in the history of MGCL, drilling for PPL was carried out by Mari Rig 1 as contractor and for ensuring HSE compliance, the Rig was also certified for IMS without any major non-compliance.

- In addition to scheduled IMS audits, Senior Management visit to operational sites is being practiced to continuously monitor HSE compliance.

- All MGCL office buildings/ offices have been declared as “No Smoking Zones”. Smoking can only be carried out at designated areas.

- In MGCL, we care about employees and their families, therefore initiatives are being undertaken to create awareness among MGCL employees on prevention of malaria and other health related issues.

- Risk assessment for all operational activities has been made mandatory for Exploration & Production life cycle activities.

- HSE training being an integral component to promote HSE culture, a three year Training calendar has been developed to sensitize employees for HSE compliance. HSE inductions are being conducted for new employees, visitors and contractors. Similarly HSE alerts are being regularly issued to keep our employees updated on HSE issues.

- In order to provide safe & healthy environment for our employees at our operational areas, we have geared up our environmental monitoring activities by monitoring impacts of Ammonia emission by Fertilizer producing plant adjacent to our residential colony at Daharki. In addition, noise level monitoring at our colony has also been initiated to check high noise levels due to fertilizer plants during night hours.

HUMAN RESOURCES DEVELOPMENT

Development of Human Resource is a strategic task. A task which entails identifying actual and potential human talent, resourcing and carrying out their performance assessment and

Directors' Report to the Members

investing in human capital to groom them as a Company asset. Along with these processes, HRD provides a frame work of training programmes for self development and career progression which are in line to meet the growing challenges on the industry.

In nut shell Human Resource Development is a planned and coordinated system in terms of needs and talents essentially required in the company to meet organizational goals.

Human Resource Development stands on following key pillars:

i. **Recruitment:**
   Company makes concerted efforts for the recruitment of talented manpower which is knowledgeable, enthusiastic and well motivated for the assigned task.

ii. **Utilizing Human Capital to its Max:**
   Through intrinsic training and development employees with good knowledge and skills are rotated on different jobs, related to their field to draw their optimum performance.

iii. **Training & Development:**
   Training and development play a vital role in the growth of an organization.

   Increasing the job knowledge and skills of employees through various professional courses and task rotation help them to cope with short term as well as long term organizational challenges. The methodical coaching & mentoring process of training and self development expands the horizons of human intellect and overall personality of the employees which augments in achieving the company objectives.

In MGCL, training and development are always focused on organizing training in a manner which provides maximum professional grooming. The company also imparts necessary training to

Directors as well.The training cycle involves following major steps:

- Training Need Analysis
- Training Plan
- Training Implementation
- Training Evaluation

iv. Job Satisfaction and Motivation:
By recognizing that pay is not the only motivator, but intangible reward like acknowledging the performance of employee by giving him the importance while making decisions not only creates a better work culture but also helps to achieve organizational goals, thus making them a motivated and a committed performer.

v. Succession Planning:
MGCL provides a perfect platform to establish a development program for the key appointments which creates a motivated and capable group of employees ready to move forward in the organization when the need arises.

vi. Employee Retention:
It is necessary to provide the employees an opportunity, recognition, autonomy at work and of course pleasant working ambiance to retain them. If given a feeling that they are wanted and Company is ready to invest for their growth, a good number of employees could be retained thus minimizing the turnover rate in the company.

vii. Fresh Talent Hunt:
The company also encourages the new talent to work for the company through “Management Trainee Program”. Fresh graduates are trained and exposed to new challenges thus making them future’s valuable assets.

The aforementioned elements are not only effectively implemented in MGCL but also monitored at all levels to ensure satisfaction of the employees as well as company’s goals are met.

INFORMATION TECHNOLOGY

MGCL has a business driven technology adoption approach. This strategy is helping to align technology initiatives with Company’s business objectives. Upcoming and suitable technology usage will create innovative culture, enhance productivity, and provide value added benefits to our stake holders.

The Company successfully implemented SAP R3 ERP system. The initiative has laid a foundation for enterprise level integrated information architecture. SAP implementation will help to adopt industry best practiced business processes and will yield improved cross functional efficiencies. We are focused to draw optimal benefits from the implemented SAP modules and expand the system landscape on need basis. Key users are being provided academy

Directors' Report to the Members

level trainings to build in-house skills for managing the system.

INDUSTRIAL RELATIONS
The working environment and overall industrial relations climate remained cordial at all locations of the Company including Mari Gas Field. Recreational and motivational activities at these locations helped in improving harmony in the work environment and were very well received by the employees of the various fields/locations.

CORPORATE SOCIAL RESPONSIBILITY (CSR)
Corporate Social Responsibility stems out of Company's acceptance of its responsibility for the impact of its business activities on its stakeholders including but not limited to the environment, consumers, employees, local communities and the general society. The prime focus of CSR approach is to carryout sustainable development programs in-and-around the operational areas to meet the present needs of local communities without undermining the capacity of future generation to meet their needs.

MGCL has an impressive record of implementing CSR programs not only in its primary operational areas in Daharki but also contributing significantly in other areas primarily as a social participant and not due to any legal obligation.

MGCL also played a vital role for relief of flood affected persons in various parts of the Country.

Summary of CSR jobs carried out in Mari D & P lease and JV blocks are given as under:

MARI D & P LEASE AREA
In Mari Lease area, the Company is not under any legal obligation to undertake any CSR initiative but as a responsible corporate entity, MGCL believes in playing effective role in the sustainable development programs to ensure maximum economic benefits to the marginalized sector of society.

Details of projects carried out are as under.

Health Sector

a. Operating the mobile dispensaries since 1987. Field dispensaries are established at ten well locations for the treatment of local population.

b. A maternity home at U.C Dad Leghari, made operational since 2003. Rs. 2.5 million is being spent annually.

c. A dispensary has been constructed at well No. 8 for the treatment of Tuberculosis patients.

d. Mother & Child Healthcare Centre constructed at civil hospital Mir Pur Mathhelo costing Rs. 11 million.

e. Hepatitis 'B' vaccination program being one of the major initiative in the health sector. Rs. 60 million were spent so far in vaccinating 130,000 people of the area. Herbal treatment of the patients was also undertaken.

f. Established Free Eye Camp in April 2011.

Education Sector

a. MGCL has so far played vital role in uplifting education facility by constructing number of new schools,

We build upon
our strengths,
and weaknesses
gradually take care
of themselves

Directors' Report to the Members

renovation of old school buildings and providing furniture, books, ceiling fans, computers etc.

b. A joint venture mega project of Pakistan Chemical & Energy Sector Skill Development Company has established a Technical Training Centre at Daharki with approximate cost of 276 million. MGCL contribution for this program is Rs. 30 million as per commitment.

c. In order to accommodate long outstanding demand of outsourced / Company's Contractors' staff and local population, a project of Mari Education and Medical Complex at Daharki Field has also been started which will be completed in phases.

Provision of clean water

The Company has constructed 15 water tanks at different locations each having 2,000 gallons storage capacity for providing clean drinking water. Work is currently in progress on another 10 new storage tanks.

Flood Relief Activities

Flood relief activities are in full swing at different areas of Distt Ghotki. MGCL has set up 3 x Camps for flood affected persons, where cooked food is being provided regularly. Our medical team is also visiting the Camps for providing the treatment to affectees in very efficient manner.

Joint Venture Blocks

MGCL is also operating several joint venture exploration blocks in all four provinces of the Country. These JV blocks remain the focus of the company's CSR program despite many limitations. Some of our completed projects have already been handed over to the district government as per government policy; work on some projects in JV blocks are in currently in progress.

Details of completed CSR schemes in JV blocks are given below:

Ziarat Block – Distt Harnai, Baluchistan

a. Water supply scheme in Ziarat Kach Distt Harnai.
b. Construction of additional two rooms and boundary wall at Khost dispensary.
c. Construction of additional rooms at Girls Primary School Khost.
d. Renovation and provision of furniture / equipment at Boys High School Khost.
e. Establishment of Free Medical Camp at Khost.
f. Construction of Mosque at Distt Hospital Harnai and at Mangi.

Zarghun Block - Baluchistan

a. Construction of Primary School at Dilwani, district Harnai.
b. Establishment of medical camp at Dilwani in May 2010, which remained successful.
c. Construction of lined water channel at Dilwani.

d. Widening/Repair of public road 12 Km.
e. Construction of water storage tank at Karkan.

Hanna/Harnai Blocks

The following CSR schemes are currently in progress.

a. Construction of Girls Primary School at Hanna Urak.
b. Construction of additional rooms and provision of equipment at Hanna dispensary.
c. Renovation/extension of Primary School at Urak.
d. Flood relief activities are in progress in coordination with Distt Govt Harnai.

Sukkur Block - Sindh

a. Improvement of facilities at Rehabilitation Centre for handicapped children Allahabad, Shikarpur, and provision of Suzuki Bolan vehicle to provide pick and drop service to the children and staff members.
b. Improvement of facilities at Govt Service Centre for Blinds, Shikarpur.
c. Repair/renovation of Primary School Goth Ali Gohar. Shar, Tehsil Khanpur, Distt Shikarpur.
d. Repair/renovation of mosque at Ghari Syed, Tehsil khanpur, Distt Shikarpur.
e. Complete renovation of R.C.P.H.C Centre for handicapped children at Sukkur at an approximate cost of Rs. 2.5 million (work is currently in progress).
f. Establishment of Free Eye Surgical Camp at Rahimabad, tehsil Khanpur.
g. Flood relief activities at Distt Sukkur & Shikarpur are in progress at large scale.
h. Free Medical Camp for Skin Diseases was arranged for flood affectees on request of Distt. Govt. Shikarpur.

Sujawal Block – Distt Thatta

a. Numerous schemes regarding provision of drinking water, health and education etc are in planning phase, and will be finalized shortly.
b. Established Free Eye Surgical Camp at tehsil hospital Jati for the relief of poor community.
c. Recently MGCL has provided Books/Cupboards to Sujawal Public Library to promote the reading habits amongst local community.

Karak Block - Khyber Pakhtoon Khwa

a. Arranged Free Eye Surgical Camp at tehsil hospital Takht-e-Nusrat in collaboration with Al-Shifa Eye Trust.
b. Other schemes regarding provision of drinking water and health are being finalized keeping in view the urgency of the requirement.
c. Flood relief activities are in progress at Mianwali, Essa Khail & surrounding areas.
d. Construction of approach road to village Sher Dil.
e. Provision of electrification to village Ali Mai Sher Dil.
f. Construction of additional rooms/washroom in Girls School at Kamerser.
g. Renovation of dispensary at Kamerser.
h. Installation of Water Pumps for locals.
i. Construction of retaining wall and public washrooms at Kamarser.

Following projects are in progress:

- Construction of Football Ground in High School Kamerser
- Up-gradation of water supply scheme.
- Arranging of Medical/Eye Camp at Shakardara

IMS CERTIFICATION

Mari Gas Company successfully achieved three International Standard Certifications for its Integrated Management System (IMS) comprising ISO Quality Management System (ISO 9001), ISO Environmental System (ISO 14001) and Occupational Health and Safety Management System (ISO 18001) through

Directors' Report to the Members

management commitment and in-house as well as external trainings for creating awareness amongst employees. Being an IMS Certified company, MGCL is now known to be a 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. Thus the Company has become the pioneer in local E&P sector.

As part of Integrated Management System (IMS) based on International Management Standards, internal and external HSE Audits are a regular feature of HSE monitoring. Audits are carried out against a set performance criteria by the trained system auditors supported with HSE professionals. The audit approach reduces the subjectivity, encourages improvement and provides consistency in safe operational performance.

The certification has been confirmed by Re - Certification of IMS in 2010 by SGS Pakistan Limited which includes ISO 9001 (quality).14001 (EMS) & 18001/2007 (OHSAS). Internally, IMS is being monitored by the Management Representative with the coordination of more than thirty (30) qualified IMS Internal System Auditors in the Organization.

Further more, focusing the globalization of business trends to ensure confidentiality, integrity and availability of information to the concerned party, Company had also achieved certification for Information Security Management System (ISMS) based on ISO 27001 by SGS Certification body. This will definitely further enhance trust of stake holders and our JV partners.

DIRECTORS

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

1. Lt Gen Mushtaq Hussain (Retd)
2. Brig Pervez Sarwar Khan (Retd)
3. Dr. Nadeem Shafiq Malik
4. Mr Shah Mahboob Alam
5. Mr Muhammad Naeem Malik
6. Mr Zahid Hussain
7. Mr Muhammad Ejaz Chaudhary

These vacancies were filled by:

1. Lt Gen (R) Raza Muhammad Khan
2. Maj Gen Zahid Parvez (Retd)
3. Mr Pervaiz Akhtar
4. Mr Sher Muhammad Khan
5. Mr Asif Saeed Sindhu
6. Mr Manzoor Ahmed

The Board wishes to record its appreciation for the valuable contributions and services rendered by the outgoing directors during their tenure and extends warm welcome to the incoming directors.

BOARD MEETINGS

Six meetings of Board of Directors were held during the financial year 2010-11. The attendance of directors in the board meetings is as under:

Name of Directors	Meetings Attended
Lt. Gen Hamid Rab Nawaz (Retd)	5
Lt. Gen Mushtaq Hussain (Retd)	3
Lt. Gen (R) Raza Muhammad Khan	3
Mr. Qaiser Javed	6
Maj Gen Zahid Parvez (Retd)	6
Brig. Rahat Khan (Retd)	5
Dr. Nadeem Inayat	5
Mr. Muhammad Naeem Malik	3
Mr. Muhammad Ejaz Chaudhry	2
Dr Nadeem Shafiq Malik	3
Mr. Muhammad Riaz Khan	5
Mr Sher Muhammad Khan	4
Mr Pervaiz Akhtar	1
Mr. Basharat A. Mirza	5
Mr Asif Saeed Sindhu	1
Mr. Liaqat Ali	6
Mr Manzoor Ahmed	6

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors of the Company performs the task of overseeing operations and affairs of the Company in an efficient and effective manner. In the interest of smooth functioning, the Board has constituted three (3) Sub-Committees. These Sub-Committees are entrusted with the task of ensuring speedy management decisions.

Audit Committee

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

Mr. Qaiser Javed	President
Mr Pervaiz Akhtar	Member
Mr. Muhammad Riaz Khan	Member
Mr. Manzoor Ahmed	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;
- 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

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

Directors' Report to the Members

Technical Committee
Technical Committee of the Board comprises of the following directors:

Brig Dr. Gulfam Alam (Retd)
President
Mr. Sher Muhammad Khan
Member
Dr Nadeem Inayat
Member

Major Gen Zahid Parvez (Retd)
Member
Mr. Liaqat Ali
Member

The major role of the Committee is to review and recommend the technical and operational matters of the Company to the Board of Directors.

Human Resource Committee
Human Resource Committee of the Board comprises of the following directors:

Mr Liaquat Ali
President
Dr. Nadeem Inayat
Member
Mr. Basharat A. Mirza
Member

The major role of the Committee is to review and recommend the matters related to human resource of the Company to the Board of Directors.

PATTERN OF SHAREHOLDING
A statement showing the pattern of shareholding as at June 30, 2011 is attached.

CODE OF CORPORATE GOVERNANCE

Securities & Exchange Commission of Pakistan (SECP) has issued 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 for implementation. 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 and accrued income/receivables, of various funds as at June 30, 2010, based on their respective audited accounts, is as under:

Contributory provident fund Rs 301.03 Million Management staff gratuity fundRs 302.51 Million Non-management staff gratuity fund Rs 112.94 Million

j) All major Government levies as mentioned in Note 11 to the financial statements payable as at June 30, 2011 have been deposited subsequent to the year-end except for PEPCO which are being paid as and when realized.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Company has made compliance with the Code of Corporate Governance during the year ended June 30, 2011. 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 thirteen independent non-executive directors and one executive director. Also 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, 2011 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

Directors' Report to the Members

Board.

8. The meetings of the Board were presided over by the Chairman and the Board has 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 were 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 four 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 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 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. In compliance of the requirements of Listing Regulations

number 35 of the Karachi Stock Exchange (Guarantee) Limited, the related party transactions have been placed before the Audit Committee and approved by the Board of Directors

20. The Board arranged orientation courses for its directors during the year to apprise them of their duties and responsibilities.

21. It is also confirmed that all other material principles contained in the Code have been complied with.

POST BALANCE SHEET EVENTS

The Board of Directors has proposed issuance of Bonus Shares in ratio of One Share for every four shares held (i.e 25%) in its meeting held on September 26, 2011.

AUDITORS

The present auditors of the company, M/s M. Yousuf Adil Saleem & Company, Chartered Accountants, are due for retirement at the Annual General meeting. Being eligible, they have given their consent to continue as auditors for the next financial year. The company has received a notice under Section 253 of the Companies Ordinance, 1984 from a member for appointment of M/s A.F. Fergusons & Co., Chartered Accountants, as auditors of the Company for the next financial year. Their consent to act as auditors of the company has also been received.

ACKNOWLEDGEMENT

The Board of Directors would like to express its 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 in continued supply of gas to its customers. 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, Oil & Gas Regulatory Authority, Directorate General of Petroleum Concessions, Directorate General of Gas, Ministry of Finance, Fauji Foundation and Oil & Gas Development Company Limited.

For and on behalf of the Board

Lt Gen Hamid Rab Nawaz, HI(M) (Retd)
Chairman

Islamabad
September 26, 2011

Auditors' Report to the Members

We have audited the annexed balance sheet of Mari Gas Company Limited ("the Company") as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, 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.

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, with which we concur;

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, statement of comprehensive income, 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, 2011 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.

CHARTERED ACCOUNTANTS
Engagement Partner
Mohammad Saleem

Islamabad
September 26, 2011

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.

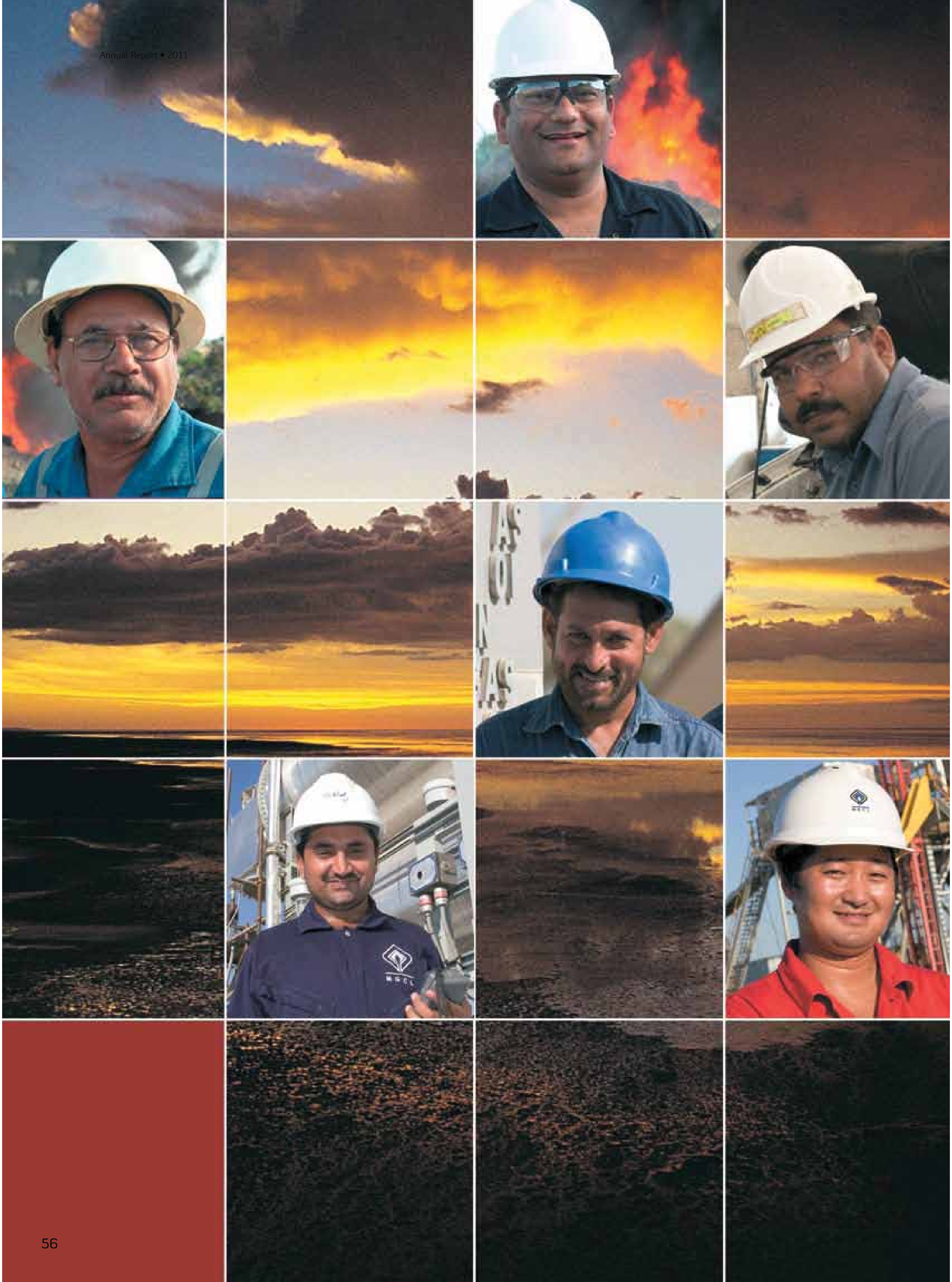
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance 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.

CHARTERED ACCOUNTANTS
Engagement Partner
Mohammad Saleem

Islamabad
September 26, 2011



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Financial Statements of

Mari Gas Company Limited

for the year ended June 30, 2011

Balance Sheet

as at June 30, 2011

	Note	2011	2010
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
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	735,000	735,000
Undistributed percentage return reserve	5	490,220	364,205
Exploration and evaluation reserve	6	4,057,194	2,800,268
Profit and loss account	7	5,388,001	5,291,353
		10,670,415	9,190,826
NON–CURRENT LIABILITIES			
Long term financing – secured	8	1,300,000	1,720,000
Provision for decommissioning cost	9	3,528,410	2,460,885
Deferred liabilities			
Employee benefits – unfunded	10	88,791	76,196
		4,917,201	4,257,081
CURRENT LIABILITIES			
Accrued and other liabilities	11	9,871,460	7,787,846
Current maturity of long term financing – secured	8	420,000	380,000
Provision for taxation	12	498,409	296,661
		10,789,869	8,464,507
CONTINGENCIES AND COMMITMENTS	13		
		26,377,485	21,912,414

The annexed notes from 1 to 40 form an integral part of these financial statements.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

	Note	2011	2010
		(Rupees in thousand)	
ASSETS			
NON–CURRENT ASSETS			
Property, plant and equipment	14	4,787,239	4,540,056
Intangible			
Development and production assets	15	3,392,447	3,075,836
Exploration and evaluation assets	16	4,057,194	2,800,268
		7,449,641	5,876,104
Long term loans and advances	17	2,341	2,850
Long term deposits and prepayments	18	11,015	10,878
Deferred taxation	19	1,692,398	1,072,873
		13,942,634	11,502,761
CURRENT ASSETS			
Stores and spares	20	484,906	290,262
Trade debts	21	7,706,622	6,099,654
Loans and advances	22	334,773	336,388
Short term prepayments	23	48,474	27,450
Interest accrued		6,581	44,634
Other receivables	24	73,508	3,960
Cash and cash equivalents	25	3,779,987	3,607,305
		12,434,851	10,409,653
		26,377,485	21,912,414

Qaiser Javed
Director

Profit and Loss Account

for the year ended June 30, 2011

	Note	2011	2010
		(Rupees in thousand)	
Gross sales to customers	26	31,402,132	28,490,653
Gas development surcharge		17,719,495	17,710,340
General sales tax		4,440,084	3,889,878
Excise duty		1,361,913	671,554
Wind fall levy		266,165	31,947
Surplus payable to the President of Pakistan as per the Agreement		804,789	946,817
		24,592,446	23,250,536
Sales – net		6,809,686	5,240,117
Royalty		847,579	660,553
		5,962,107	4,579,564
Operating expenses	27	2,996,889	2,409,175
Exploration and prospecting expenditure	28	378,828	744,677
		3,375,717	3,153,852
Operating profit		2,586,390	1,425,712
Finance cost	29	715,756	465,539
Workers' fund	30	204,160	97,804
		919,916	563,343
		1,666,474	862,369
Other income	31	775,686	488,719
Profit before taxation		2,442,160	1,351,088
Taxation	32	716,860	165,134
Profit for the year		1,725,300	1,185,954
Profit for the year represents the following:			
Distributable profits		380,325	336,960
Exploration and evaluation reserve	6	1,256,926	848,994
Profit and loss account – undistributable balance	7.1	88,049	–
		1,725,300	1,185,954
Earnings per share – basic and dilutive			
Earnings per share on the basis of distributable profits (Rupees)	33	5.17	4.58
Earnings per share on the basis of profit and loss account (Rupees)	33	23.47	16.14

The annexed notes from 1 to 40 form an integral part of these financial statements.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

Qaiser Javed
Director

Statement of Comprehensive Income

for the year ended June 30, 2011

	2011	2010
	(Rupees in thousand)	
Profit after taxation	1,725,300	1,185,954
Other comprehensive income	–	–
Total comprehensive income for the year	1,725,300	1,185,954

The annexed notes from 1 to 40 form an integral part of these financial statements.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

Qaiser Javed
Director

Cash Flow Statement

for the year ended June 30, 2011

	Note	2011	2010
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	34	3,664,484	3,019,112
Increase / (decrease) in long term loans and advances		509	(1)
Increase in long term deposits and prepayments		(137)	(577)
Employee benefits paid – unfunded		(3,102)	(6,377)
Taxes paid		(1,134,637)	(710,122)
Net cash from operating activities		2,527,117	2,302,035
Cash flows from investing activities			
Purchase of property, plant and equipment		(710,587)	(70,104)
Development and production assets		(69,174)	(360,323)
Exploration and evaluation assets		(1,256,926)	(848,994)
Proceeds from disposal of property, plant and equipment		8,942	7,178
Interest received		500,094	400,476
Net cash used in investing activities		(1,527,651)	(871,767)
Cash flows from financing activities			
(Repayment)/receipt of Long term financing – secured		(380,000)	900,000
Finance cost paid		(259,737)	(169,754)
Dividends paid		(187,047)	(247,847)
Net cash (used) / from financing activities		(826,784)	482,399
Increase in cash and cash equivalents		172,682	1,912,667
Cash and cash equivalents at beginning of year		3,607,305	1,694,638
Cash and cash equivalents at end of year	25	3,779,987	3,607,305

The annexed notes from 1 to 40 form an integral part of these financial statements.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

Qaiser Javed
Director

Statement of Changes in Equity

for the year ended June 30, 2011

	Share capital	Genneral reserve	Undistributed percentage return reserve	Exploration and evaluation reserve	Profit and loss account	Total
			(Rupees in thousand)			
Balance as at July 01,2009	367,500	2,046	638,410	1,951,274	5,273,492	8,232,722
Profit for the year	–	–	–	–	1,185,954	1,185,954
Other Comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,185,954	1,185,954
Dividends	–	–	–	–	(227,850)	(227,850)
Undistributed percentage return reserve	–	–	91,249	–	(91,249)	–
Exploration and evaluation reserve	–	–	–	848,994	(848,994)	–
Bonus shares issued during the year	367,500	(2,046)	(365,454)	–	–	–
Balance as at June 30, 2010	735,000	–	364,205	2,800,268	5,291,353	9,190,826
Profit for the year	–	–	–	–	1,725,300	1,725,300
Other Comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,725,300	1,725,300
Dividends	–	–	–	–	(245,711)	(245,711)
Undistributed percentage return reserve	–	–	126,015	–	(126,015)	–
Exploration and evaluation reserve	–	–	–	1,256,926	(1,256,926)	–
Balance as at June 30, 2011	735,000	–	490,220	4,057,194	5,388,001	10,670,415

The annexed notes from 1 to 40 form an integral part of these financial statements.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

Qaiser Javed
Director

Notes to the Financial Statements

for the year ended June 30, 2011

1. LEGAL STATUS AND OPERATIONS

Mari Gas Company Limited ("the Company") is a public limited company incorporated in Pakistan on December 04, 1984 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 hydrocarbons. 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) and 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 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IASs / 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 judgement 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.

Judgements made by the management in the application of IASs / 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 judgement 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 judgement 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 judgement 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.

Notes to the Financial Statements

for the year ended June 30, 2011

2.3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND IFRIC ITERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to the company's current operations or are not expected to have significant impact on the company's financial statements other than certain additional disclosures:

- Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction.	Ist January 2011
- IFRS 12 Disclosure of Interests In other Entities	Ist January 2013
- IFRS 13 Fair value measurement	Ist January 2013
- Amendments to IAS 1 Presentation of Financial Statement	Ist January 2011
- IAS 12 (amendments) - Deferred Tax: Recovery of underlying assets	Ist January 2012
- IFRIC 14 (IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)	Ist January 2011
- IAS 24 (revised definition of related parties) - Related Party Disclosures	Ist January 2011
- IAS 34 - (amendments) - Interim Financial Reporting	Ist January 2011
- IFRS 11 Joint Arrangements	Ist January 2013
- Amendments to IFRIC 13 Customers Loyalty Programmes	Ist January 2011
- Reissued as IAS 27 Consolidated and Separated Financial Statements	Ist January 2013
- Amendments to IFRS 5 Non- Currents Assets Held for Sale and Discontinued Operations	Ist January 2010
- IFRS 10 Consolidated Financial Statements	Ist January 2013
- Amendments to IFRS 7 Financial Instrument Disclosures	Ist January 2011
- Reissued as IAS 28 Investment in Associates	Ist January 2013
- IFRS 9 Financial Instruments - Classification and Measurement	Ist January 2013

2.4 NEW ACCOUNTING STANDARDS, AMENDMENTS AND IFRIC INTERPRETATIONS THAT ARE EFFECTIVE BUT NOT RELEVANT TO THE COMPANY'S OPERATIONS

	Effective beginning or after
- Amendments to IFRS 5 Non - Current Assets Held for Sale and Discontinued Operations	Ist January 2010
- Amendments to IFRS 8 Operating Segments	Ist January 2010
- Amendments to IAS 36 Impairment of Assets	Ist January 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Ist July 2010

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 Mari Gas Well Head Price 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 oil produced, prorated for part thereof on annual basis, subject to a maximum of 45%. The minimum return to shareholders for the year was 34.60% (2010 : 33.43%).

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

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 bases 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 and, 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.

Notes to the Financial Statements

for the year ended June 30, 2011

3.6 Employee benefits

The Company operates:

i) Defined benefit funded gratuity plans for its management and 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, 2011. 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. The latest valuation was carried out as at June 30, 2011 using discount rate of 14.50% per annum and salary increase rate of 14.50% per annum.

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, 2011 using discount rate of 14.50% per annum and pension increase rate of 9.5% 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 for management employees eligible under this scheme, based on actuarial valuation as at June 30, 2011 using discount rate of 14.50% per annum and an increase in cost of medical benefits of 9.75% 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, 2011 using discount rate of 14.50% per annum and salary increase rate of 14.50% 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 14 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 carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. 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 demonstrated.

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

Notes to the Financial Statements

for the year ended June 30, 2011

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 dependant.

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 prevailing 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, oil and LPG is recognized on delivery of the same to customers. Income from bank deposits is recognized proportionately with reference to the principal outstanding and the applicable rate of return.

3.13 Borrowing cost

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are charged to profit or loss.

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.

Notes to the Financial Statements
for the year ended June 30, 2011

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	2011	2010
		(Rupees in thousand)	
4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
24,850,007 (2010 : 24,850,007) ordinary shares of Rs. 10 each issued for cash		248,500	248,500
11,899,993 (2010 : 11,899,993) ordinary shares of Rs. 10 each issued for consideration other than cash		119,000	119,000
36,750,000 (2010: 36,750,000) ordinary shares of Rs. 10 each issued as Bonus Shares		367,500	367,500
		735,000	735,000
Major shareholding of the Company is as follows;			
Fauji Foundation		40.00%	40.00%
Oil and Gas Development Company Limited		20.00%	20.00%
Government of Pakistan	4.1	18.20%	18.20%

4.1 Government of Pakistan share holding has been reduced with effect from March 12, 2010 due to transfer of shares to MGCL Employees Empowerment Trust (MGCL EET) created for implementation of Benazir Employees Stock Option Scheme.

4.2 Application of IFRS 2 – Share Based Payment

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme (the "Scheme") for employees of certain State Owned Enterprises (SOEs) and non–State Owned Enterprises where GoP holds significant investments (non–SOEs). The Scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this Scheme, GoP shall transfer 12% of its investment in such SOEs and non–SOEs to a Trust Fund to be created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price of listed entities or breakup value for non–listed entities. The shares relating to the surrendered units would be transferred back to GoP.

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit–holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for the payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re–purchase commitment would be met by GoP.

Notes to the Financial Statements

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The Scheme, developed in compliance with the stated GoP policy of empowerment of employees of the State Owned Enterprises need to be accounted for by the covered entities, including the Company, under the provisions of the amended International Financial Reporting Standard to share based payment (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the Securities and Exchange Commission of Pakistan on receiving representation from some of the entities covered under the scheme and after having consulted the Institute of Chartered Accountants of Pakistan vide their letter number CAIDTS/PS& TAC/2011-2036 dated 02 February 2011 has granted exemption to such entities from the application of IFRS2 to the Scheme vide SRO 587 (I)/2011 dated 07 June 2011.

Had the exemption not been granted the staff costs of the Company for the year would have been higher by Rs. 20.662 million (2010: Rs. 20.950 million), profit after taxation and unappropriated profit would have been lower by Rs. 10.331 million (2010: Rs. 10.475 million), earnings per share would have been lower by Rs. 0.14 (2010: Rs. 0.14) per share and reserves would have been higher by Rs. 20.806 million (2010: Rs. 10.475 million).

However, since the Company is operating under cost plus formula as explained in note 3.2 above, any variance on account of above do not effect the profitability of the Company and the guaranteed rate of return to the shareholders.

	Note	2011	2010
		(Rupees in thousand)	
5. UNDISTRIBUTED PERCENTAGE RETURN RESERVE			
Undistributed percentage return reserve		364,205	638,410
Transferred from profit and loss account		126,015	91,249
		490,220	729,659
Bonus shares issued	5.1	–	(365,454)
		490,220	364,205
General reserve	5.2	–	2,046
Bonus shares issued	5.1	–	(2,046)
		–	–
	5.3	490,220	364,205

5.1 The Board of Directors in its meeting held on September 28, 2009 proposed the issuance of 100% bonus shares. The bonus shares were subsequently issued after approval of shareholders in the Annual General Meeting held on October 30, 2009.

5.2 The amount of general reserve represents un-appropriated profit for the period from December 04, 1984 to December 31, 1985. The entire amount of general reserve had been applied towards the issuance of bonus shares during the previous year.

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

		2011	2010
		(Rupees in thousand)	
6.	**EXPLORATION AND EVALUATION RESERVE**		
	Balance at the beginning of year	2,800,268	1,951,274
	Additions	1,256,926	1,257,962
		4,057,194	3,209,236
	Cost of dry and abandoned wells	–	(408,968)
	Balance at the end of year	4,057,194	2,800,268

6.1 The Company has created this reserve pursuant 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. The corresponding effect of the reserve has been incorporated as exploration and evaluation assets.

7. PROFIT AND LOSS ACCOUNT

The amount of Rs. 5,388.001 million (2010: Rs. 5,291.353 million) represents the following:

7.1 Undistributable balance

The amount of Rs 5,354.192 million (2010: Rs 5,266.143 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, 2010	Generated during the year ended June 30, 2011	Total
			(Rupees in thousand)	
a)	Rupee element of capital expenditure (net of depreciation/ amortization) and repayment of borrowings	5,001,372	88,049	5,089,421
b)	Maintenance of debt service ratio	90,234	–	90,234
c)	Maintenance of current ratio	174,537	–	174,537
		5,266,143	88,049	5,354,192
	2010	5,266,143	–	5,266,143

		2011	2010
		(Rupees in thousand)	
7.2	**Distributable balance**		
	Undistributed guaranteed return	33,809	25,210

This represents the additional 4.60% (2010: 3.43%) 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.

Notes to the Financial Statements

for the year ended June 30, 2011

7.3 Gas Development Surcharge related to Pakistan Electric Power Company (PEPCO) will be paid to the Government as and when related amounts are received from PEPCO. Accordingly, Rs 4,379 million (June 2010: 4,052 million) receivable from PEPCO on this account and the amount of Rs 4,372 million (June 2010: Rs 3,888 million) payable to the Government have not been taken into account for the purpose of calculation of current ratio and consequential adjustment under provisions of clause 2.1 (c) of the Agreement.

	Note	2011	2010
		(Rupees in thousand)	
8. LONG TERM FINANCING – SECURED			
Loan for Mari Deep Development	8.1	1,520,000	1,900,000
Less: Current Maturity		380,000	380,000
		1,140,000	1,520,000
Loan for Zarghun Gas Development	8.2	200,000	200,000
Less: Current Maturity		40,000	–
		160,000	200,000
		1,300,000	1,720,000

8.1 The Company has obtained loan amounting to Rs 1.9 billion till June 30, 2011 against Syndicated Term Finance Loan facility of Rs 3.5 billion from a consortium of banks led by Bank Alfalah Limited for financing of drilling of three wells in Mari Deep, Goru B reservoirs. The mark–up is payable semi–annually in arrears on the outstanding facility amount at six months KIBOR +1.50% per annum. The mark–up rate has been revised downward to six months KIBOR + 1.35% effective from September 15, 2010. The effective mark–up rate per annum was 14.39% (2010: 14.02%). The loan is repayable in ten equal semi–annual installments after a grace period of 24 months from date of first disbursement. The first and second installments due on September 15, 2010 and March 15, 2011 have been paid.

8.2 In order to finance Zarghun Gas Field, the Company has arranged another Term Finance Loan of Rs. 1,112 million from Habib Bank Limited. Out of loan amount, a sum of Rs. 200 million has been disbursed uptil June, 2011. The mark–up is payable semi–annually in arrears on the outstanding facility amount at the average of the six months KIBOR + 1.35% per annum. The effective mark–up rate per annum was 14.45% (2010: 13.90%). The loan is repayable in ten equal semi–annual installments after a grace period of 24 months from date of first disbursement. The first installment is due on August 26, 2011.

	Note	2011	2010
		(Rupees in thousand)	
9. PROVISION FOR DECOMMISSIONING COST			
Balance at beginning of the year		2,460,885	1,838,210
Provision made during the year		601,971	364,282
		3,062,856	2,202,492
Unwinding of decommissioning cost	29	465,554	258,393
Balance at end of the year		3,528,410	2,460,885
The above provision is analyzed as follows:			
Wells		2,182,828	1,611,564
Gathering lines		137,602	106,895
		2,320,430	1,718,459
Unwinding of decommissioning cost:			
Wells		1,137,367	714,023
Gathering lines		70,613	28,403
		1,207,980	742,426
		3,528,410	2,460,885

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

	Note	2011	2010
		(Per annum)	
Discount rate (Credit adjusted risk free rate)		15.20%	10.50%
Inflation rate		14.00%	8.51%
Market risk premium		13.20%	–

	Note	2011	2010
		(Rupees in thousand)	
10. EMPLOYEE BENEFITS – UNFUNDED			
Post retirement medical benefits	35.2	20,435	20,185
Post retirement leave benefits	35.2	47,700	38,681
Pension plan for non–management employees	35.2	20,656	17,330
		88,791	76,196

Notes to the Financial Statements

for the year ended June 30, 2011

		Note	2011	2010
			(Rupees in thousand)	
11.	**ACCRUED AND OTHER LIABILITIES**			
	Gas development surcharge	11.1	6,803,817	6,038,280
	General sales tax		394,542	341,118
	Excise duty		118,477	56,875
	Mark–up on long term financing – secured		78,217	87,752
	Workers' Welfare Fund		420,152	348,308
	Workers' Profit Participation Fund	11.2	132,316	72,445
	Employee benefits – funded	35.1	211,967	119,172
	Retention and earnest money deposits		14,869	22,040
	Payable to joint venture partners		209,109	223,586
	Other accrued liabilities		602,863	209,775
	Unclaimed dividend		5,773	5,041
	Unpaid dividend		74,569	16,637
	Payable to the President of Pakistan		804,789	246,817
			9,871,460	7,787,846

11.1 As advised by Ministry of Petroleum and Natural Resources vide letters DGO (AC)–5 (50)/94–IA and DGO (AC)–5 (50)/95 dated March 30, 1995 and October 01, 1996 respectively, interest on delayed payment of Gas Development Surcharge amounting to Rs. 1,344.872 million (2010: Rs. 896.480 million) will be accounted for / paid by the Company after actual receipt of interest on delayed payments from PEPCO (Note– 21). However, it does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Agreement.

		2011	2010
		(Rupees in thousand)	
11.2	**Workers' Profit Participation Fund**		
	Balance at beginning of the year	72,445	127,865
	Allocation for the year	132,316	72,445
	Interest on delayed payments @ 25.07% (2010 : 24%) per annum.	5,921	10,257
		138,237	82,702
		210,682	210,567
	Amount paid to the Fund	(78,366)	(138,122)
	Balance at end of the year	132,316	72,445

	Note	2011	2010
		(Rupees in thousand)	
12. PROVISION FOR TAXATION			
Balance at beginning of the year		296,661	715,762
Provision for the year	32	1,336,385	291,021
Income tax paid during the year		(1,134,637)	(710,122)
Balance at end of the year		498,409	296,661
13. CONTINGENCIES AND COMMITMENTS			
13.1 Contingencies			
Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials.		14,192	32,462
13.2 Commitments			
(i) Capital expenditure:			
– Share in joint ventures		434,626	3,437,323
– Others		328,382	271,812
		763,008	3,709,135
(ii) Operating lease rentals due:			
– Less than one year		13,514	19,644
– More than one year but less than five years		22,413	31,502
		35,927	51,146
		798,935	3,760,281

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14. PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Roads and bridges	Drilling rig tools and equipment	Equipment and general plant	Computers and allied equipment	Gathering lines	Furniture and fixtures	Vehicles–heavy	Vehicles–light	Decommissioning Cost–Mari field and Joint Ventures Gathering Lines	Capital work in progress (note 14.1)	Total
	(Rupees in thousand)														
Cost															
Balance as at July 01, 2009	651,832	51,362	450,976	45,519	102,511	1,143,522	419,328	73,625	802,007	47,988	231,861	130,167	88,237	2,387,079	6,626,014
Additions during the year	23,900	–	65,738	–	–	1,193	314,618	12,637	1,025,121	2,582	95,272	29,122	18,659	298,497	1,887,339
Disposals	–	–	–	–	–	–	(3,993)	(4,208)	–	(362)	–	(6,640)	–	–	(15,203)
Transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,798,576)	(1,798,576)
Balance as at June 30, 2010	675,732	51,362	516,714	45,519	102,511	1,144,715	729,953	82,054	1,827,128	50,208	327,133	152,649	106,896	887,000	6,699,574
Balance as at July 01, 2010	675,732	51,362	516,714	45,519	102,511	1,144,715	729,953	82,054	1,827,128	50,208	327,133	152,649	106,896	887,000	6,699,574
Additions during the year	75,094	–	38,157	2,161	–	8,113	62,758	9,629	–	619	43,609	1,870	30,707	756,989	1,029,706
Disposals	–	–	(141)	–	–	–	(8,809)	(1,330)	–	(1,174)	(4,504)	(7,581)	–	–	(23,539)
Transfers	(904)	904	(15,928)	15,928	–	(326)	326	–	–	–	(48,563)	48,563	–	(288,412)	(288,412)
Balance as at June 30, 2011	749,922	52,266	538,802	63,608	102,511	1,152,502	784,228	90,353	1,827,128	49,653	317,675	195,501	137,603	1,355,577	7,417,329
Depreciation															
Balance as at July 01, 2009	–	5,963	192,169	29,374	67,595	180,499	277,140	57,675	640,108	32,369	169,808	75,782	17,584	–	1,746,066
Depreciation for the year	–	959	23,016	2,620	4,646	182,727	46,724	8,847	77,655	3,106	53,920	18,177	3,453	–	425,850
On disposals	–	–	–	–	–	–	(3,884)	(4,208)	–	(306)	–	(4,000)	–	–	(12,398)
Balance as at June 30, 2010	–	6,922	215,185	31,994	72,241	363,226	319,980	62,314	717,763	35,169	223,728	89,959	21,037	–	2,159,518
Balance as at July 01, 2010	–	6,922	215,185	31,994	72,241	363,226	319,980	62,314	717,763	35,169	223,728	89,959	21,037	–	2,159,518
Depreciation for the year	–	991	20,711	5,297	9,237	167,990	59,807	9,708	130,007	2,870	11,307	70,034	4,213	–	492,172
On disposals	–	–	(132)	–	–	–	(8,213)	(1,295)	–	(1,161)	(4,504)	(6,295)	–	–	(21,600)
Balance as at June 30, 2011	–	7,913	235,764	37,291	81,478	531,216	371,574	70,727	847,770	36,878	230,531	153,698	25,250	–	2,630,090
Carrying amounts – 2010	675,732	44,440	301,529	13,525	30,270	781,489	409,973	19,740	1,109,365	15,039	103,405	62,690	85,859	887,000	4,540,056
Carrying amounts – 2011	749,922	44,353	303,038	26,317	21,033	621,286	412,654	19,626	979,358	12,775	87,144	41,803	112,353	1,355,577	4,787,239
Rates of depreciation	–	1–3%	5%	5%	10%	10–33.33%	10%	25%	10%	10%	30%	20%	Note 3.5		

		2011	2010
		(Rupees in thousand)	
14.1	**CAPITAL WORKS IN PROGRESS**		
	MARI FIELD		
	Phase VI project – Habib Rahi	2,341	2,356
	SML – 1		
	Materials and equipment	–	2,548
	SML – appraisal well		
	Land	19	31
	Materials and equipment	67	27,080
		86	27,111
	Pirkoh well		
	Buildings, roads and bridges	–	3,531
	Materials and equipment	3,878	9,241
		3,878	12,772
	Mari Deep 12		
	Materials and equipment	333	348
	3 Up front wells and production facilities		
	Land	15,636	8,469
	Buildings, roads and bridges	6,734	5,055
	Materials and equipment	399,235	365,290
		421,605	378,814
		428,243	423,949
	JOINT VENTURES – OTHER THAN MARI FIELD	285,401	–
	SUPPORT OF PRODUCTION		
	Buildings, roads and bridges	184,159	162,004
	Plant, machinery and others	457,774	301,047
		641,933	463,051
		1,355,577	887,000

Notes to the Financial Statements

for the year ended June 30, 2011

14.2 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)					
Computers and allied equipment	701	701	–	19	Through auction	M/s Muhammad Sharif
Computers and allied equipment	130	95	35	25	As per Company policy	Lt Gen Mushtaq Hussain (Retd) – Ex MD
Computers and allied equipment	498	498	–	50	As per Company policy	Various Employees
Equipment and general plant	900	899	1	125	Through auction	M/s Combined Technolgy International
Equipment and general plant	948	939	9	30	Through auction	M/s Khalil Ahmed
Equipment and general plant	527	476	51	110	Through auction	M/s Lutaf Ali Gadani
Equipment and general plant	1,932	1,925	7	631	Through auction	M/s Malik M. Arshad
Equipment and general plant	311	289	22	61	Through auction	M/s Maqbool Ahmed
Equipment and general plant	1,036	1,036	–	312	Through auction	M/s Muhammad Azam
Equipment and general plant	675	666	9	79	Through auction	M/s Muhammad Habib
Equipment and general plant	1,677	1,675	2	595	Through auction	M/s Muhammad Sharif
Equipment and general plant	1,232	1,203	29	200	Through auction	M/s Tauqeer Ahmed
Equipment and general plant	603	156	447	121	As per Company policy	Lt Gen Mushtaq Hussain (Retd) – Ex MD
Equipment and general plant	42	23	19	4	As per Company policy	Various Employees
Furniture & fixture	5	5	–	8	Through auction	M/s Khalil Ahmed
Furniture & fixture	297	295	2	22	Through auction	M/s Lutaf Ali Gadani
Furniture & fixture	238	238	–	24	Through auction	M/s Muhammad Ali Meerani
Furniture & fixture	481	481	–	174	Through auction	M/s Muhammad Hussain
Furniture & fixture	320	299	21	18	Through auction	M/s Muhammad Sharif
Vehicle	1,374	1,374	–	922	Insurance Claim	M/s Abdul Basit
Vehicle	2,032	2,032	–	1,480	Insurance Claim	M/s Abdul Ghafoor
Vehicle	936	936	–	527	Insurance Claim	M/s Abdullah
Vehicle	1,925	1,925	–	1,080	Insurance Claim	M/s Muhammad Maqsood
Vehicle	1,644	1,644	–	935	Insurance Claim	M/s Muhammad Nazir
Vehicle	1,194	1,194	–	672	Insurance Claim	M/s Muhammad Rafique
Vehicle	1,881	596	1,285	718	As per Company policy	Lt Gen Mushtaq Hussain (Retd) – Ex MD
	23,539	21,600	1,939	8,942		

15. 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, 2009	3,061,782	–	–	193,473	594,404	3,849,659	1,265,939	5,115,598
Additions	954,728	–	–	–	–	954,728	345,623	1,300,351
Transfers	–	–	–	–	(594,404)	(594,404)	–	(594,404)
Balance as at June 30, 2010	4,016,510	–	–	193,473	–	4,209,983	1,611,562	5,821,545
Balance as at July 01, 2010	4,016,510	–	–	193,473	–	4,209,983	1,611,562	5,821,545
Additions	–	–	–	69,174	–	69,174	571,264	640,438
Transfers	–	–	–	–	–	–	–	–
Balance as at June 30, 2011	4,016,510	–	–	262,647	–	4,279,157	2,182,826	6,461,983
Amortization								
Balance as at July 01, 2009	2,190,605	–	–	–	–	2,190,605	273,608	2,464,213
Charge for the year	234,190	–	–	–	–	234,190	47,306	281,496
Balance as at June 30, 2010	2,424,795	–	–	–	–	2,424,795	320,914	2,745,709
Balance as at July 01, 2010	2,424,795	–	–	–	–	2,424,795	320,914	2,745,709
Charge for the year	256,722	–	–	–	–	256,722	67,105	323,827
Balance as at June 30, 2011	2,681,517	–	–	–	–	2,681,517	388,019	3,069,536
Carrying amount – 2010	1,591,715	–	–	193,473	–	1,785,188	1,290,648	3,075,836
Carrying amount – 2011	1,334,993	–	–	262,647	–	1,597,640	1,794,807	3,392,447

Notes to the Financial Statements

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		2011	2010
		(Rupees in thousand)	
16.	**EXPLORATION & EVALUATION ASSETS**		
	Balance at the beginning of year	2,800,268	1,951,274
	Additions	1,256,926	1,257,962
		4,057,194	3,209,236
	Cost of dry and abandoned wells	–	(408,968)
	Balance at the end of year	4,057,194	2,800,268

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

	Note	2011	2010
		(Rupees in thousand)	
Current liabilities related to exploration and evaluation		503,342	223,586
Current assets related to exploration and evaluation		767,356	159,028
Exploration and prospecting expenditure	28	378,828	744,677

		Note	2011	2010
17.	**LONG TERM LOANS AND ADVANCES**			
	Considered good – secured			
	– Executives		4,978	4,993
	– Other employees		4,949	6,108
		17.1	9,927	11,101
	Less: current portion	22		
	– Executives		4,573	4,878
	– Other employees		3,013	3,373
			7,586	8,251
			2,341	2,850

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

	Balance as at July 01, 2010	Disbursements during the year	Repayments during the year	Balance as at June 30, 2011
	(Rupees in thousand)			
Executives	4,993	10,685	10,700	4,978
Other employees	6,108	5,621	6,780	4,949
	11,101	16,306	17,480	9,927
2010	10,288	16,285	15,472	11,101

17.2 The maximum amount due from executives at the end of any month during the year was Rs. 5.626 million (2010: Rs. 5.257 million).

17.3 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. These loans and advances have been measured at cost which equals their fair value.

	Note	2011	2010
		(Rupees in thousand)	
18. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		10,724	10,498
Prepayments		291	380
		11,015	10,878
19. DEFERRED TAXATION			
The balance of deferred tax is in respect of following temporary differences:			
Provision for employee benefits – unfunded		31,077	26,669
Exploration expenditure		2,386,948	1,689,047
Unwinding of decommissioning cost		–	259,849
Accelerated tax depreciation		(725,627)	(902,692)
Deferred tax asset	19.1	1,692,398	1,072,873

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

	2011	2010
	(Rupees in thousand)	
20. STORES AND SPARES		
Stores	371,586	227,029
Spares	113,320	63,233
	484,906	290,262
21. TRADE DEBTS		
Associated undertakings – considered good		
Pakistan Electric Power Company	4,379,263	4,052,435
Foundation Power Company Daharki Limited	1,504,323	303,623
Fauji Fertilizer Company Limited	503,172	536,090
Sui Southern Gas Company Limited	79,872	72,829
Sui Northern Gas Pipelines Limited	5,691	14,432
Foundation Gas	77,105	60,597
	6,549,426	5,040,006
Others – considered good		
Engro Fertilizer Limited	206,328	208,158
Fatima Fertlizer Company Limited	149,746	540,944
Byco Petroleum Pakistan Limited	634,192	310,546
National Refinery Limited	166,457	–
Attock Refinery Limited	473	–
	7,706,622	6,099,654

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for the year ended June 30, 2011

21.1 As advised by Ministry of Petroleum and Natural Resources vide letters DGO(AC)–5 (50)/94–IA and DGO (AC)–5(50)/95 dated March 30,1995 and October 01,1996 respectively, interest income on delayed payments from PEPCO amounting to Rs.2,908.283 million (June 2010: Rs. 2,038.201 million) will be accounted for by the Company after it is actually received. However, it does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Agreement.

21.2 The maximum aggregate amount outstanding at the end of any month during the year from associated undertakings was Rs. 4,564.860 million (June 2010: Rs. 6,296.742 million).

	Note	2011	2010
		(Rupees in thousand)	
22. LOANS AND ADVANCES			
Current portion of long term loans and advances – considered good	17		
– Executives		4,573	4,878
– Other employees		3,013	3,373
		7,586	8,251
Advances to staff		7,977	6,015
Advances to suppliers and others		43,760	19,032
Advances to joint venture partners		183,587	207,571
Royalty paid in advance		91,863	95,519
		334,773	336,388
23. SHORT TERM PREPAYMENTS			
LC margin		36,608	3,006
Mining lease		3,631	3,631
Prepaid insurance		3,559	69
Others		4,676	20,744
		48,474	27,450
24. OTHER RECEIVABLES			
Rig rentals		69,069	–
Others		4,439	3,960
		73,508	3,960
25. CASH AND CASH EQUIVALENTS			
Cash in hand		459	228
Balances with banks on:			
Deposit accounts	25.1	3,772,463	3,585,309
Current accounts		7,065	21,768
		3,779,528	3,607,077
		3,779,987	3,607,305

25.1 These include foreign currency accounts amounting to US$ 2.215 million (2010: US$ 0.05 million). The effective markup rate for the period ended June 30, 2011 ranges from 1% to 13% (2010: 1% to 12.75%) per annum.

	Note	2011	2010
		(Rupees in thousand)	
26. GROSS SALES TO CUSTOMERS			
Sale of:			
Gas	26.1	30,039,843	28,096,759
Crude Oil	26.2	–	11,104
Less: Transportation charges		–	1,606
		–	9,498
Condensate	26.3	957,820	307,224
Less: Transportation charges		13,134	8,528
		944,686	298,696
LPG	26.4	406,961	77,605
Own Consumption		10,642	8,095
		31,402,132	28,490,653

26.1 This represents sale of gas as per detail below:

	2011	2010
Mari Field	29,515,978	27,922,843
Sukkur block	3,079	14,443
Hala block	470,551	159,473
Kohat block	50,235	–
	30,039,843	28,096,759

26.2 This represents sale of Crude oil from Ziarat block in the comparative period.

	2011	2010
	(Rupees in thousand)	
26.3 This represents sale of condensate as per detail below:		
Mari Field	21,708	–
Hala block	916,894	307,224
Sujawal block	9,251	–
Kohat block	9,967	–
	957,820	307,224

26.4 This represents sale of LPG from Hala block.

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	Note	2011	2010
		(Rupees in thousand)	
27. OPERATING EXPENSES			
Salaries, wages and benefits		876,534	678,803
Employee benefits	27.1	129,944	70,062
Rent, rates and taxes		7,005	6,105
Legal and professional services		5,620	5,973
Fuel, light, power and water		81,650	60,090
Maintenance and repairs	27.2	130,463	141,353
Insurance		39,202	40,516
Depreciation	14	492,172	425,850
Amortization	15	323,827	281,496
Employees medical and welfare		110,535	100,627
Field and other services		309,850	260,143
Travelling		12,708	17,026
Communications		10,632	8,069
Printing and stationery		8,318	7,441
Office supplies		6,968	10,705
Technical software		28,506	36,160
Auditor's remuneration	27.3	1,663	1,862
Mobile dispensary and social welfare		93,388	50,713
Training		58,027	46,317
Reservoir study and production logging		–	14,071
Compression study		–	66,550
Advertisement		617	1,786
Books and periodicals		558	356
Public relations and social activities		3,597	4,688
Directors' fee and expenses		3,679	3,389
Freight and transportation		1,161	1,198
Subscriptions		1,423	472
Rig – Operating expenses	39	213,278	96,412
Sukkur block – Operating expenses		2,257	1,334
Hala block – Operating expenses		288,449	240,495
Kohat block – Operating expenses		26,264	–
Miscellaneous		4,579	489
		3,272,874	2,680,551
Less: Recoveries from joint ventures	27.4	275,985	271,376
		2,996,889	2,409,175

27.1 These include Rs. 17.33 million (2010: Rs. 17.09 million) on account of defined contribution plan.

		2011	2010
		(Rupees in thousand)	
27.2	These include:		
	Maintenance and repairs – Plant & equipment	44,353	48,537
	– Others	40,699	39,399
		85,052	87,936
	Stores and spares – Plant & equipment	40,672	33,120
	– Others	4,739	20,297
		45,411	53,417
		130,463	141,353
27.3	**Auditor's remuneration**		
	Audit fee	1,000	1,000
	Half year review	261	261
	Special reports	184	184
	Other certifications	118	317
	Out of pocket expenses	100	100
		1,663	1,862
27.4	**Recoveries from joint ventures**		
	Time write cost	201,174	205,303
	Overheads	65,877	58,707
	Computer & equipment support cost	8,934	7,366
		275,985	271,376

Notes to the Financial Statements

for the year ended June 30, 2011

28. EXPLORATION AND PROSPECTING EXPENDITURE

	2011	2010	2011	2010
	Working interest (%)		(Rupees in thousand)	
OPERATED BLOCKS				
Zarghun South Field	35.00	35.00	14,508	5,550
Ziarat Block	60.00	60.00	44,095	34,206
Karak Block	60.00	60.00	58,978	23,313
Noor Block	100.00	100.00	–	410
Hanna Block	40.00	40.00	8,104	122,258
Harnai Block	40.00	40.00	7,721	13,847
Sujawal Block	100.00	100.00	44,232	78,812
Sukkur Block	58.82	58.82	14,035	29,727
Ghauri Block	100.00	100.00	45,981	7,163
			237,654	315,286
NON – OPERATED BLOCKS				
Dhadar Block	27.67	27.67	(463)	357,203
Hala Block	35.00	35.00	21,735	21,812
Pasni Block	25.00	25.00	–	(424)
Kohat Block	20.00	20.00	10,334	8,582
Bannu West Block	10.00	10.00	1,007	1,210
Kohlu Block	30.00	30.00	4,722	3,817
Kalchas Block	20.00	20.00	8,635	6,068
Zindan Block	35.00	–	8,292	–
Oman Block	25.00	25.00	86,912	31,123
			141,174	429,391
			378,828	744,677

28.1 Exploration and prospecting 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	2011	2010
		(Rupees in thousand)	
28.2 Exploration and prospecting expenditure comprises of:			
Cost of dry and abandoned wells		–	408,968
Prospecting expenditure		378,828	335,709
		378,828	744,677

29. FINANCE COST

	Note	2011	2010
Mark–up on long term financing – secured		244,029	196,509
Unwinding of decommissioning cost	9	465,554	258,393
Interest on Workers' Profit Participation Fund	11.2	5,921	10,257
Bank charges		252	380
		715,756	465,539

	Note	2011	2010
		(Rupees in thousand)	
30. WORKERS' FUND			
Workers' Profits Participation Fund	11.2	132,316	72,445
Workers' Welfare Fund		71,844	25,359
		204,160	97,804
31. OTHER INCOME			
Income from financial assets			
Income on bank deposits		462,041	430,073
Exchange gain / (loss)		(3,109)	31,944
		458,932	462,017
Income from non financial assets			
Gain / (loss) on sale of property, plant and equipment		7,003	4,373
Interest income on delayed payment by customers		187,287	–
Rig rental income		85,409	–
Miscellaneous		37,055	22,329
		316,754	26,702
		775,686	488,719
32. TAXATION			
Current taxation	12	1,336,385	291,021
Deferred taxation		(619,525)	(125,887)
		716,860	165,134

	2011	2010
	%	%
32.1 RECONCILIATION OF EFFECTIVE TAX RATE		
Applicable tax rate	50.00	50.00
Effect of:		
Amounts not deductible for tax purposes	26.01	44.60
Origination and reversal of temporary differences	(28.35)	(56.78)
Depletion allowance	(18.31)	(25.60)
Aggregate effective tax rate charged to income	29.35	12.22

Notes to the Financial Statements

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		2011	2010
		(Rupees in thousand)	
33.	**EARNINGS PER SHARE – BASIC AND DILUTIVE**		
	Profit for the year	1,725,300	1,185,954
	Reserve for exploration & evaluation assets – note 6	1,256,926	848,994
	Undistributable profit as explained – note 7	88,049	–
		1,344,975	848,994
	Balance distributable profit after tax	380,325	336,960
	Number of shares outstanding (in thousand)	73,500	73,500
	Earnings per share on the basis of distributable profits (in Rupees)	5.17	4.58
	Earnings per share on the basis of profit and loss account (in Rupees)	23.47	16.14

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

		Note	2011	2010
			(Rupees in thousand)	
34.	**CASH GENERATED FROM OPERATIONS**			
	Profit before taxation		2,442,160	1,351,088
	Adjustments for:			
	Depreciation of property, plant and equipment		492,172	425,850
	Amortization of development and production assets		323,827	281,496
	Gain on disposal of property, plant and equipment		(7,003)	(4,373)
	Employee benefits – unfunded		15,697	12,316
	Interest income		(462,041)	(430,073)
	Finance cost		715,756	465,539
	Working capital changes	34.1	143,916	917,268
			3,664,484	3,019,112

		2011	2010
34.1	**Working capital changes**		
	(Increase)/decrease in current assets		
	Stores and spares	(194,644)	(84,552)
	Trade debts	(1,606,968)	1,088,947
	Loans and advances	1,615	529,829
	Short term prepayments	(21,024)	1,052
	Other receivables	(69,548)	6,094
		(1,890,569)	1,541,370
	Increase / (decrease) in accrued and other liabilities	2,034,485	(624,101)
		143,916	917,268

35. EMPLOYEE BENEFITS

35.1 Funded benefits

The results of the actuarial valuation carried out as at June 30, 2011 and June 30, 2010 are as follows:

	2011			2010		
	Manage–ment Pension	Manage–ment Gratuity	Non Manage–ment Gratuity	Manage–ment Pension	Manage–ment Gratuity	Non Manage–ment Gratuity
	(Rupees in thousand)					
Reconciliation of payable to defined benefit plan						
Present value of defined benefit obligations	–	593,353	186,994	–	484,148	157,689
Fair value of plan assets	–	(237,114)	(104,716)	(36,769)	(174,798)	(84,861)
Net actuarial gains/(losses) not recognized	–	(182,695)	(43,855)	–	(180,939)	(45,298)
Liability recognized in balance sheet	–	173,544	38,423	(36,769)	128,411	27,530
Movement in payable to defined benefit plan						
Balance as at beginning of year	(36,769)	128,411	27,530	(19,764)	88,773	18,244
Add: Cost for the year	224	92,782	20,860	(30,915)	65,943	11,270
	(36,545)	221,193	48,390	(50,679)	154,716	29,514
Less: Contribution to fund during the year	36,545	(47,649)	(9,967)	13,910	(26,305)	(1,984)
Balance as at end of year	–	173,544	38,423	(36,769)	128,411	27,530
Movement in fair value of plan assets						
Balance as at beginning of year	–	174,798	84,861	53,331	160,955	84,517
Contributions during the year	–	47,649	9,967	–	26,305	1,984
Expected return on plan assets	–	23,319	11,032	5,819	17,154	9,000
Actuarial gain/(loss) on plan assets	–	(1,446)	705	355	(11,492)	(2,507)
Benefits paid	–	(7,206)	(1,849)	(22,736)	(18,124)	(8,133)
Balance as at end of year	–	237,114	104,716	36,769	174,798	84,861
Plan assets comprise of:						
Defence Saving Certificates	–	–	–	–	–	–
Deposit with banks	–	237,114	104,716	36,769	174,798	84,861
	–	237,114	104,716	36,769	174,798	84,861
Costs for the year						
Current service cost	–	40,222	9,238	–	30,612	6,733
Interest cost	–	62,627	20,193	281	42,419	13,125
Expected return on plan assets	–	(23,319)	(11,032)	(5,819)	(17,154)	(9,000)
Amortization of actuarial loss	–	13,252	2,461	(821)	10,066	412
Immediate recognition of curtailment gain	224	–	–	(24,556)	–	–
Total cost	224	92,782	20,860	(30,915)	65,943	11,270
Actual return on plan assets	–	108,468	30,197	5,007	66,349	12,552

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35.2 Un–funded benefits

	2011			2010		
	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	47,700	25,783	14,604	38,681	22,065	12,988
Net actuarial (losses)/gains not recognized	–	(5,348)	6,052	–	(1,880)	4,342
Liability recognized in balance sheet	47,700	20,435	20,656	38,681	20,185	17,330
Movement in payable to defined benefit plan						
Balance at beginning of the year	38,681	20,185	17,330	35,235	20,328	14,694
Add: Cost for the year	9,723	2,648	3,326	7,562	2,118	2,636
	48,404	22,833	20,656	42,797	22,446	17,330
Less: Payments during the year	(704)	(2,398)	–	(4,116)	(2,261)	–
Balance at end of the year	47,700	20,435	20,656	38,681	20,185	17,330
Costs for the year						
Current service cost	2,545	–	1,810	2,318	–	1,558
Interest cost	5,273	2,648	1,770	4,493	2,118	1,295
Immediate recognition of curtailment loss/(gain)	1,905	–	(254)	751	–	(217)
Total cost	9,723	2,648	3,326	7,562	2,118	2,636

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

	2011	2010
	(Per annum)	
– Discount rate	14.50%	12.75%
– Expected rate of return on plan assets	14.50%	11.75%
– Expected rate of salary increase	14.50%	12.75%
– Expected rate of pension increase	9.50%	7.75%

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

	2011	
	(Rupees in thousand)	
	1% increase	1% decrease
Present value of medical obligations	3,158	(1,448)
Current service cost and interest cost	564	(301)

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:

	2011	2010	2009	2008	2007
		(Rupees in thousand)			
Management pension					
Present value of defined benefit obligations	–	–	6,568	11,169	11,441
Fair value of plan assets	–	(36,769)	(53,331)	(53,494)	(162,016)
(Surplus) / deficit	–	(36,769)	(46,763)	(42,325)	(150,575)
Experience adjustments on obligations	–	(1,977)	4,947	386	298
Experience adjustments on plan assets	–	355	1,585	17,021	6,287
Gratuity (Management and non–management)					
Present value of defined benefit obligations	780,347	641,837	508,997	359,036	312,886
Fair value of plan assets	(342,147)	(259,659)	(245,473)	(221,619)	(73,709)
(Surplus) / deficit	438,200	382,178	263,524	137,417	239,177
Experience adjustments on obligations	(15,285)	(66,209)	(110,268)	(10,419)	(3,667)
Experience adjustments on plan assets	(740)	(13,999)	9,460	9,441	(12,580)

36. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Market risk

This note presents information about the Company's exposure to each of the risks stated above; the Company's objectives, policies and processes for measuring and managing risk, and the management of Company's capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how the management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit function. Internal Audit function undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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36.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Company maintains procedures covering the function for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

The Company's credit risk exposures are categorised under the following headings:

36.1.1 Counterparties

The Company conducts transactions with the following major types of counterparties:

Trade Debts

Trade debts are essentially due from fertilizer companies and power generation company and the Company does not expect these companies to fail to meet their obligations. The sales to the Company's customers are made under gas purchase and sale agreements signed between the Company and its customers with the prior approval of Oil and Gas Regulatory Authority (OGRA), Government of Pakistan.

Sale of natural gas to related parties is at price notified by OGRA.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade debts. This allowance is based on the management's assessment of a specific loss component that relates to individually significant exposures.

Cash and investments

The Company limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counterparties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

36.1.2 Exposure to credit risk

The carrying amount of financial assets represents the maximum limit of credit risk exposure. The maximum limit of exposure to credit risk at the reporting date was:

	2011	2010
	(Rupees in thousand)	
Long term loan and advances	2,341	2,850
Long Term Deposits	10,724	10,498
Trade debts	7,706,622	6,099,654
Loans and advances	7,586	8,251
Interest accrued	6,581	44,634
Cash and cash equivalents	3,779,987	3,607,305
	11,513,841	9,773,192

The maximum exposure to credit risk for trade debts at the reporting date by type of customer was:

	2011	2010
	(Rupees in thousand)	
Fertilizer companies	859,246	1,285,192
Power generation company	5,883,586	4,356,058
Others	963,790	458,404
	7,706,622	6,099,654

The Company's most significant customer, a power generation company, accounts for Rs. 5,883.586 million of the trade debts carrying amount at June 30, 2011 (2010: Rs. 4,356.058 million).

The maximum exposure to credit risk for trade debts at the reporting date by type of product was:

	2011	2010
	(Rupees in thousand)	
Natural gas	6,828,395	5,728,511
Oil	801,122	310,546
LPG	77,105	60,597
	7,706,622	6,099,654

36.1.3 Impairment losses

The aging of trade debts at the reporting date was:

	2011		2010	
	(Rupees in thousand)			
	Gross	Impairment	Gross	Impairment
Not past due	2,231,451	–	1,793,530	–
Past due 0–30 days	626,045	–	799,684	–
Past due 30–60 days	642,787	–	594,302	–
Past due 60–90 days	586,930	–	519,635	–
Over 90 days	3,619,409	–	2,392,503	–
	7,706,622	–	6,099,654	–

36.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient balances of cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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The maturity profile of the Company's financial liabilities based on the contractual amounts is as follows:

	2011		2010	
	(Rupees in thousand)			
	Carrying amount	Contractual cash flows	Carrying amount	Contractual cash flows
Long term financing				
Maturity upto one year	420,000	420,000	380,000	380,000
Maturity after one year and upto two years	420,000	420,000	420,000	420,000
Maturity after two years and upto three years	420,000	420,000	420,000	420,000
Maturity after three years and upto four years	420,000	420,000	420,000	420,000
Maturity after four years and upto five years	40,000	40,000	420,000	420,000
Maturity after five years	–	–	40,000	40,000
	1,720,000	1,720,000	2,100,000	2,100,000
Trade and other payables				
Maturity upto one year	1,405,400	1,405,400	944,831	944,831
Maturity after one year and upto two years	420,000	420,000	420,000	420,000
Maturity after two years and upto three years	420,000	420,000	420,000	420,000
Maturity after three years and upto four years	420,000	420,000	420,000	420,000
Maturity after four years and upto five years	40,000	40,000	420,000	420,000
Maturity after five years	–	–	40,000	40,000
	2,705,400	2,705,400	2,664,831	2,664,831

36.3 Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on financial instruments.

36.3.1 Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of currency risk management is to manage and control currency risk exposures within acceptable parameters, while optimizing the return on financial instruments. The company is currently not holding any financial instruments which are exposed to currency risk.

Exposure to foreign currency risk

The Company's exposure to currency risk is as follows :

	2011	2010	2011	2010
	(Rupees in thousand)		(US$ in thousand)	
Cash and cash equivalents	186,915	4,209	2,215	50
	186,915	4,209	2,215	50

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2011	2010	2011	2010
	(Rupees)			
US $ 1	85.85	84.17	86.05	85.60

Foreign currency sensitivity analysis

A 10 percent variation of the Pak Rupee against the US $ at June 30 ,would have effected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Change in foreign exchange rates	Effect on profit	Effect on equity
		(Rupees in thousand)	
2011			
US$	+10%	18,692	18,692
	–10%	(18,692)	(18,692)
2010			
US$	+10%	421	421
	–10%	(421)	(421)

36.3.2 Interest rate risk

The markup rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in the market markup rates. Sensitivity to markup rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Company's exposure to the risk of changes in market markup rates relates primarily to Company's long term debt obligations with floating markup rates.

The Company analyzes its markup rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined markup rate shift. For each simulation, the same markup rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major markup–bearing positions.

The Company adopts a policy to ensure that markup rate risk is minimized by investing in fixed rate investments like TDRs.

Profile

At the reporting date the interest rate profile of the Company's interest–bearing financial instruments was:

	2011	2010
	(Rupees in thousand)	
Financial assets		
Cash and cash equivalents	3,779,987	3,607,305
	3,779,987	3,607,305
Financial liabilities		
Long Term Financing – Bank Alfalah Limited	1,520,000	1,900,000
Long Term Financing – Habib Bank Limited	200,000	200,000
	1,720,000	2,100,000

The effective markup rates for the financial assets and liabilities are mentioned in respective notes to the financial statements.

Notes to the Financial Statements

for the year ended June 30, 2011

Markup rate sensitivity analysis

If markup rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended June 30, 2011 would decrease/increase by Rs.8,466,713 (2010: decrease/increase by Rs. 7,852,931). This is mainly attributable to the Company's exposure to markup rates on its variable rate borrowings.

36.4 Fair value of financial instruments

All financial assets and financial liabilities are initially recognised at the fair value of consideration paid or received, net of transactions cost as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the table below.

The financial assets and liabilities are presented in the table below at their carrying values, which generally approximate to the fair values.

	2011		2010	
	(Rupees in thousand)			
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Long term loans and advances	2,341	2,341	2,850	2,850
Long Term Deposits	10,724	10,724	10,498	10,498
Trade debts	7,706,622	7,706,622	6,099,654	6,099,654
Loans and advances	7,586	7,586	8,251	8,251
Interest accrued	6,581	6,581	44,634	44,634
Cash and cash equivalents	3,779,987	3,779,987	3,607,305	3,607,305
	11,513,841	11,513,841	9,773,192	9,773,192
Financial Liabilities				
Long term financing	1,720,000	1,720,000	2,100,000	2,100,000
Trade and other payables	2,705,400	2,705,400	2,664,831	2,664,831
	4,425,400	4,425,400	4,764,831	4,764,831

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus adequate credit spread. Since the majority of the financial assets are fixed rate instruments, there is no significant difference in market rate and the rate of instrument, fair value significantly approximates to carrying value.

Fair value hierarchy

The below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy has not been presented in these financial statements, as the Company does not hold any such financial instruments in their portfolio. The investments held by the Company are only the TDRs with fixed or determinable payments and fixed maturity.

36.4.1 Determination of fair values

A number of Company's accounting policies and disclosures require the determination of fair values, for both financial and non–financial assets and liabilities. Fair values have been determined for measurement and /or disclosure purposes based on the following methods:

Non–derivative financial assets

The fair value of non–derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non–derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

36.5 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

36.5.1 Debt–to–adjusted capital ratio

The Company monitors capital on the basis of the debt–to–adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, and unappropriated profit) and includes some forms of subordinated debt. The debt–to–adjusted capital ratios as at June 30 were as follows:

	Note	2011	2010
		(Rupees in thousand)	
Total debt	36.3.2	1,720,000	2,100,000
Less: Cash and cash equivalents		3,779,987	3,607,305
Net debt		(2,059,987)	(1,507,305)
Total equity		10,670,415	9,190,826
Adjusted capital		8,610,428	7,683,521
Debt–to–adjusted capital ratio		(0.24)	(0.20)

The increase in the debt–to–adjusted capital ratio during the current year resulted primarily from the increase in net debt.

Notes to the Financial Statements

for the year ended June 30, 2011

37. REMUNERATION OF CHIEF EXECUTIVE 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:

	2011		2010	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees in thousand)			
Managerial remuneration	3,161	176,673	2,406	145,994
Company's contribution to provident fund	2,763	14,033	241	14,656
Housing and utilities	4,250	180,614	2,448	117,998
Other allowances and benefits	3,297	136,420	1,008	138,057
Bonuses	4,166	111,396	1,348	–
	17,637	619,136	7,451	416,705
Number of persons including those who worked part of the year	1	121	1	109

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.

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:

	2011	2010
	(Rupees in thousand)	
Sale of gas and LPG to related parties is as follows:		
Fauji Fertilizer Company Limited	12,307,583	12,267,755
Pakistan Electric Power Company	7,502,690	8,494,589
Foundation Power Company Daharki Limited	1,300,700	312,204
Sui Southern Gas Company Limited	483,965	171,001
Sui Northern Gas Pipelines Limited	53,313	14,443
Foundation Gas	406,961	77,605
Contribution to employee benefit funds	129,792	63,389

	2011	2010
	(Rupees in thousand)	
Receivable balances with related parties are as follows:		
Fauji Fertilizers Company Limited	503,172	536,090
Pakistan Electric Power Company	4,379,263	4,052,435
Foundation Power Company Daharki Limited	1,504,323	303,623
Sui Southern Gas Company Limited	79,872	72,829
Sui Northern Gas Pipelines Limited	5,691	14,432
Foundation Gas	77,105	60,597

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

39. FIGURES

Corresponding figures, wherever necessary, have been rearranged and reclassified to reflect more appropriate presentation of events and transactions. Significant reclassification is as follow:

These figures have been reclassified from operating expenses to rig – operating expenses.

	2011	2010
	(Rupees in thousand)	
Salaries, wages and benefits	77,699	48,587
Employee benefits	7,902	2,435
Rent, rates and taxes	120	–
Legal and professional services	210	–
Fuel, light, power and water	279	1,168
Maintenance and repairs	72,317	7,116
Employees medical and welfare	27,034	11,532
Field and other services	11,378	18,847
Travelling	6,995	4,862
Communications	514	15
Office supplies	637	1,009
Printing and stationery	155	93
Freight and transportation	7,456	640
Miscellaneous	582	108
	213,278	96,412

Figures have been rounded off to the nearest Pak Rupee unless otherwise stated.

Notes to the Financial Statements

for the year ended June 30, 2011

40. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Board of Directors of the Company on September 26, 2011.

Lt Gen (R) Raza Muhammad Khan
Managing Director / CEO

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 27th Annual General Meeting of the Company, to be held on October 26, 2011 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this _____ day of _____ 2011.

____
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.