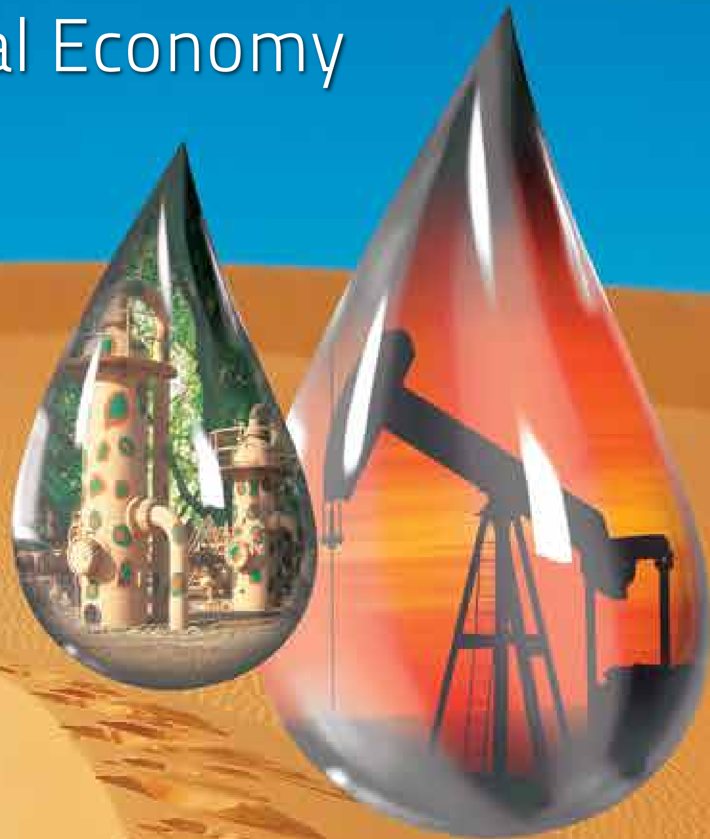
Fuelling the National Economy



Annual Report of

Mari Gas Company Limited

for the year ended

June 30, 2012

MGCL

Contents

Company Information

Registered Office

21, Mauve Area, 3rd Road, G-10/4
P.O. Box 1614, Islamabad - 44000
Tel: (+92) 051-111-410-410, (+92) 051-2352853
(+92) 051-2352857, (+92) 051-2352861
Fax: (+92) 051-2352859
info@marigas.com.pk

Daharki Field Office

Daharki, District Ghotki
Tel: (+92) 0723-111-410-410
Fax: (+92) 0723-641038

Karachi Liaison Office

D-87, Block 4, Kehkashan, Clifton
P.O. Box 3887, Karachi - 75600
Tel: (+92) 021-111-410-410
Fax: (+92) 021-5870273

Quetta Liaison Office

26, Survey-31, Defence Officers
Housing Scheme, Airport Road, Quetta.
Tel: (+92) 081-2821052, 2864085, 2839790
Fax: (+92) 081-2834465

Shares Registrar

Corplink (Pvt) Limited

Wings Arcade, 1-K Commercial, Model Town, Lahore.
Tel: (+92) 042-35839182, 042-35869037
Email: corplink786@yahoo.com

Auditors

A.F. Ferguson & Company,
Chartered Accountants,

PIA Building, 49 Blue Area, Islamabad
Tel: (+92) 051-2273457-60, 051-2870045-48
Email: aff.websupport@pk.pwc.com

Bankers

Askari Bank Limited
Bank Alfalah Limited
Bank Alfalah Limited (Islamic Banking)
Allied Bank Limited
HSBC Bank Middle East Limited
Bank of Punjab
Al Baraka Bank (Pakistan) Limited
National Bank of Pakistan Limited
Habib Bank Limited
United Bank Limited

Legal Advisor

Ali Shah Associates
Advocates High Court

1-Ali Plaza, 4th Floor, 1-E, Jinnah Avenue,
Blue Area, Islamabad.
Tel: (+92) 051-2825632

Notice of Annual General Meeting

Notice is hereby given that the 28th Annual General Meeting of the Shareholders of Mari Gas Company Limited will be held on Thursday, October 25, 2012 at 11:00 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 27th Annual General Meeting held on October 26, 2011.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2012 together with the Directors' and Auditors' reports thereon.
3. To appoint Auditors for the year 2012-13 and fix their remuneration.

Special Business

4. To consider and if thought fit, with or without modification, approve the change of the Company's name from "Mari Gas Company Limited" to "Mari Petroleum Company Limited" and to change the name wherever appearing in the Memorandum and Articles of Association of the Company and on other statutory documents to attain its main purpose under its new name, by passing the following resolution as a special resolution:

   ### RESOLUTION

   "RESOLVED that the name of the Company be and is hereby changed from Mari Gas Company Limited to Mari Petroleum Company Limited, subject to approval of the Registrar of Companies, Securities and Exchange Commission of Pakistan."

   "FURTHER RESOLVED that the Clause 1 of the Memorandum and Articles of Association be and is hereby amended as under:

   (i) "The name of the Company is MARI PETROLEUM COMPANY LIMITED."

   "FURTHER RESOLVED that the Memorandum and Articles of Association of the Company be and are hereby amended to substitute the name Mari Gas Company Limited wherever appearing in Memorandum and Articles of Association with the new name."

   "FURTHER RESOLVED that the Managing Director and the Company Secretary of the Company be and are hereby authorized to, either singly or where required jointly, sign all forms/documents and take all steps necessary for the change of name."

5. To consider, and if thought fit, approve the investment in Joint Venture for seismic unit to accelerate the currently deferred, and future prospective seismic work plans of the Company by passing the following resolution, with or without modification, as a special resolution.

   ### RESOLUTION

   Resolved that the Un-distributed percentage return reserve on Shareholders' Funds amounting to Pak Rupees 420.048 million as on 30th June, 2012 be transferred to specific capital reserve for investing in the Joint Venture for seismic acquisition unit.

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

By order of the Board

Islamabad
October 2, 2012

Assad Rabbani
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 15, 2012 to October 25, 2012 (both days inclusive). Transfers received in order at the Company's Shares Registrar, M/s Corpink (Pvt) Limited, Wings Arcade, 1-K Commercial, Model Town, Lahore, at the close of business on October 14, 2012 will be treated as in time for the purpose to determine entitlement to attend the Annual General Meeting.

2. A member entitled to attend and vote at the above meeting may appoint a person/ representative as Proxy to attend and vote on his behalf at the Meeting. The instrument of Proxy duly executed in accordance with the Articles of Association of the Company must be received at the Registered Office of the Company not less than 48 hours before the time of holding of the 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 their account numbers in CDC for verification at the time of meeting.

4. CDC account holders will further have to follow the guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

Statement under Section 160 of the Companies Ordinance, 1984

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Company to be held on Thursday, October 25, 2012.

Special Business – Change of Company Name

The Company has expanded its scope of business from the production and sale of natural gas from the single field only to the business of exploration of oil and gas in various concession areas, it is expedient that the name of the Company be changed to reflect the scope of its expanded business. Hence it is proposed that the name of the Company be changed from Mari Gas Company Limited to Mari Petroleum Company Limited.

None of the directors or their spouses have any interest whether directly or indirectly in the proposed business except to the extent of their respective shareholding.

Special Business - Investment in Joint Venture for Seismic Unit

Over the years, MGCL is finding it increasingly difficult to arrange seismic surveys in concession areas, specially in the provinces of Balochistan and KPK, due to poor law and order situation. MGCL's seismic work plans are getting delayed, requiring repeated extensions in license periods and hence seriously affecting the pace of Company's E&P activities and resulting in loss of business. This is mainly due to non-availability of adequate number of seismic companies for the areas where major volumes of E&P activities are planned. Hence it is proposed that the Company establish a seismic acquisition unit by forming a Joint Venture with operatorship rights with any Company.

Vision & Mission Statements

Our Vision

Be the leader in the oil and gas market in Pakistan by expanding and developing the petroleum value chain including exploration, production, transmission, extraction, processing, distribution and marketing such processes, products and services in order to bridge the gap of the increasing demand of petroleum products and the needs of the existing and potential customers.

Our Mission

Mari Gas Company Limited will be customer-focused and competitive with a view to contributing substantially to the national economy, while ensuring continuous growth and viability of the Company and the payment of profitable dividends to the stakeholders.

Our Commitment

- Providing uninterrupted petroleum products supply to customers.
- Maintaining best and safe 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 Review

Lt Gen (R) Raza Muhammad Khan

Years of dedication and professionalism backed by a sound strategy of the management has resulted in a glorious year for the Company and all its stakeholders. With the grace of the Almighty, MGCL is now ranked at number three among all the 25 Exploration & Production (E&P) Companies in the Country in terms of production. MGCL is also the most cost effective E&P Company in the Country.

In the previous year, we assured our stakeholders that MGCL's vision, expertise and potential will turn challenges into opportunities and prosperity for our nation. I am glad to state here that we have fulfilled our commitments to our stakeholders.

Financial Performance

During the year 2011-12 the gross revenues of the Company have increased from Rs 31.4 billion in the previous year to Rs 47.4 billion (51%) in the current year. Similarly MGCL's contribution to the Government exchequer in the form of Government levies has also increased from Rs 26.7 billion to Rs 41.6 billion (56%). Due to increase in production, the return to shareholders for the year ended June 30, 2012 has also increased from 34.60% to 37.06%. Earnings per share on the basis of distributable profits has increased from Rs 4.14 per share to Rs 4.94 per share. The Company's share of production of Natural Gas, Oil, Condensate and LPG from its Mari field and other joint ventures for the financial year 2011-12 in terms of energy is equivalent to 26.42 million barrels (2010-2011: 24.65 million barrels) resulting in foreign exchange saving of around Rs.283 billion (2010-2011: Rs.186 billion) for the current year, assuming an average crude oil price of US$ 118.16 per barrel, prevalent during the year.

Enhancement of Exploration Funds Limit

Another landmark achievement for MGCL was the phased enhancement of its annual exploration funds from US$ 20 Million to US$ 40 Million over a period of four years. The increase will provide the much needed boost to the exploration program geared towards our ultimate mission of energy independence.

Production Above and Beyond

Allocation of 44 MMscfd Mari Deep Gas to SNGPL/PEPCO

In order to commercialize the un-tapped reserves of Mari Deep lying un-used due to the inability of Star Power to utilize the same, MGCL took the initiative and pursued the case vigorously not only with GOP but with SNGPL and end user PEPCO, simultaneously. These efforts brought fruitful results in the shape of a new agreement, whereby 44 MMscfd of gas is now being supplied from Mari Deep Central Processing Facility to tie-in point of Guddu power station gas line on cost sharing basis in a record time. MGCL extended security and logistical support and provided Right of Way in addition to sharing 25% of pipeline construction cost. It was only due to these efforts that the pipeline was completed in a smooth and timely manner. MGCL separately entered into an agreement with SNGPL for sale of 44 MMscfd gas to be further supplied to Guddu power station of WAPDA and started gas supply on March 10, 2012.

Development Activities at Sujawal X-1 Well

Discovery of gas in Sujawal was made in June 2010. However, due to various impediments, production could not commence. After much extreme efforts and negotiations among between the GOP, MGCL and SSGC, development of the Sujawal field has started in September 2012. In order to reduce the commercial liabilities of the Company during the uncertain period of Extended Well Test, term sheet was negotiated with SSGC for sale of gas along with laying of approximately 22 KM gas transmission pipeline from wellhead to SSGC network at Golarchi by SSGC. It is hoped that the field shall start production of gas along with condensate by end December 2012.

Development Activities for Zarghun South Gas Field under Tight Gas Policy

Zarghun Gas Field was discovered by Bolan JV in 1998. The JV considered different development options but could not bring the field on production as the project was economically marginal due to its remote location, low gas price and higher security / operational cost.

After the announcement of much anticipated Tight Gas Policy in June 2011 by GOP, the Company successfully obtained independent third party certification of Zarghun South (ZS) Gas Field's eligibility to Tight Gas Policy 2011 and its Tight Gas Price incentive.

Accordingly, the Company submitted a Supplemental ZS Tight Gas Development Plan for grant of Tight Gas D&P Lease for development of this long stranded gas field in Balochistan, which is dedicated for supply of gas to SSGCL's Quetta Transmission System.

On Government's grant of the said Tight Gas D&P Lease for ZS Gas Field, it will become the first gas field to be developed under the Tight Gas Policy on fast track basis. Security situation permitting, the project will go a long way in contributing towards the Government's efforts in mobilizing the much needed untapped tight gas reserves potential of the Country. MGCL may be one of the first companies to avail the higher gas price incentive offered by the Government under the Tight Gas Policy.

Additional 22 MMCSFD Gas

The R&D initiative of MGCL included a dedicated focus on enhancement of production from existing resources. As a pilot project, professionals from Head Office and Daharki Field devoted themselves to explore possibilities of enhancing production from Mari Field. Based on the production and reservoir data, MGCL's professionals managed to extract a much needed 22 MMSCFD of additional gas for the nation on the eve of Eid-ul-Fitr.

Fast-track Crude Oil Production from Halini

The well Halini X-1, spud in on 7th January 2011 and reaching the depth of 5350 meters in 201 days (56 days ahead of plan) is the deepest well ever drilled by the Company. Discovery was declared on 14th October 2011 and well was put on production on 12th Jan 2012 on curtailed rate of production of 500 bbls/ day. Bringing the well on production in such a short span of time was possible due to high commitment shown by the employees and the combined efforts of technical and support

departments of the Company. Flow/production from the well has been diverted from M/s Schlumberger rented facility to Karak Joint Venture surface testing equipments.
This contribution will go a long way in meeting the nation's energy demands. Present production from the well is 745 bbls/day of oil and 0.45 MMSCFD of gas. The company plans to market the gas in the near future.

Drilling Activities at Pirkoh

Drilling activities for five infill HRL wells with Sky Top Rig is in progress. In order to drain the Pirkoh reservoir optimally and as part of the Management vision, drilling operations for Pirkoh 4 and 5 and one water disposal well at MDCPF are planned to commence during next year soon after work over operations of Khost-3 well at Ziarat block. Requisitions pertaining to materials required for drilling of wells are being processed. The total estimated cost of five infill wells, two pirkoh wells and re-entry in deep well is US$ 16.5 million.

Rig Mari-1

MGCL offered the services of Rig Mari-1 to M/s Pakistan Petroleum Limited for the project of drilling in Hala Block. After meeting stringent HSE requirements and standards, the rig was accepted for drilling operations at Bhit Shah X-1 and thereafter successfully drilled well to a total depth of 3730m. This was the first ever venture of MGCL as drilling contractor outside MGCL's operated blocks. Thereafter the same rig successfully drilled a well in April 12, 2012 near Sukkur for the Sukkur Joint Venture owned by MGCL and PEL. MGCL performed this task as a Drilling Contractor for Sukkur Joint Venture after being screened through the competitive bidding process. The drilling activities of the Company are thus contributing a handsome share in revenue stream for MGCL.

Rig Mari-1 was also successfully certified for ISO 9001 (Quality Management System), 14001 (Environmental Management System) & OHSAS 18001(Occupational Health & Safety Management System) with no major non-conformance. MGCL continues to meet the drilling requirements for quality, environment, occupational health and safety standards. Performance is being further improved by complying with all legal requirements and best industry practices.

Research and Development Initiative

We at MGCL believe that the future of the oil and gas industry in Pakistan and world over is highly dependent on the critical factor of R&D. Our R&D initiative underpins our long term energy strategy whereby we are investing in internal research projects along with collaborative research initiatives with industry and university partners to explore promising pathways to meet the country's future energy demands. With this in view MGCL embarked upon a R & D initiative in 2011.
Significant aspects of our R&D I Initiative are covered separately in the report.

Bonus Shares

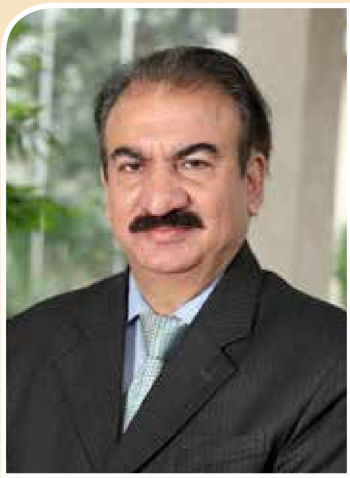
In September 2011, MGCL declared second issue of Bonus Shares @ 25% (one share for every four shares held). The issuance of bonus shares had a positive impact on the Company's image in the stock market which strengthened its share price by making it an attractive investment choice for current and prospective investors.

Our commitment and unwavering focus is invigorated by the encouragement and support of all our stakeholders. We thank you for your continued support.

May Allah grant us the fortitude to sustain our growth – Ameen

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

Board of Directors

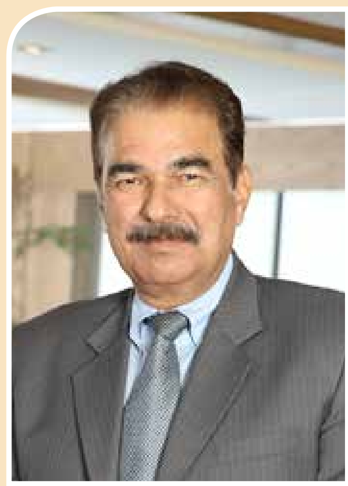


Lt Gen Muhammad Mustafa Khan (Retd)
Managing Director Fauji Foundation /
Chairman MGCL Board

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 (LNG/LPG/Refinery)
Ministry of P & NR

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

Mr. Masood Siddiqui
Managing Director / CEO, OGDCL

Mr. Muhammad Riaz Khan
Executive Director JV, OGDCL

Mr. Basharat A Mirza
Executive Director SBP, 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) Agha Haider Naqvi (General Manager Human Resource)

Standing Left to Right
Lt Col (R) Shah Rukh (Manager Projects), Mr Assad Rabbani (Company Secretary), Mr Muhammad Asim Butt (Manager HSE), Mr Muhammad Ali Mughal (A/General Manager Operations), Mr. M. Khurshid Akhtar (Sr. Consultant), Brig (R) Abdul Rehman Dogar (General Manager Procurement), Brig (R) Muhammad Nazar Tiwana (A/General Manager Admin & Security), Mr Tufail Ahmed (A/General Manager Exploration), Mr Mahboob Habibi (Head Internal Audit), Mr Asif Ali Rangoonwala (Manager Business Development), Mr Shahzad Nazir (Head IT)

Not in Picture
Brig (R) Saleem Mahmood, (Resident General Manager, Quetta)

Management

Muhammad Aqib Anwer
Manager Finance

Muhammad Liaquat Ali Khan
Regional Manager KPK & Punjab

Javed Iqbal Jadoon
Regional Manager Sindh

Shahid Hussain
Manager Procurement

Muhammad Saleem Siddique
Manager Reservoir

Ali Ejaz Rasool Mirza
Manager Finance (JV)

Major (R) M. Iftikhar-ul-Haq
Manager Admin Balochistan

Muhammad Shifaat Alam
Manager Exploration-II

Col (R) Shaukat Hassan
Manager Admin, Daharki

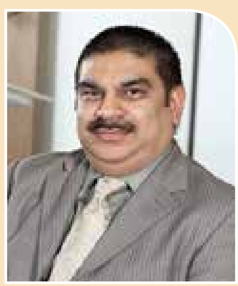
Lt Col (R) Ikram Ur Rahim
Manager Projects, Sindh

Saeed Ahmed Qureshi
Manager Production

Munir Ahmed Memon
Manager Public Affairs

Muhammad Ijaz
Manager Planning & Engg.

Lt Col (R) Altaf Hussain
Manager Administration



Sheikh Naveed Ahmed
Manager HR

Ms Sohab Haider
Acting Manager Accounts

History of the Company

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 Field and the subsequent reservoir evaluations, the GIIP of the Field enhanced to 10.751 TCF, thus making Mari one of the largest gas fields 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 included 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.

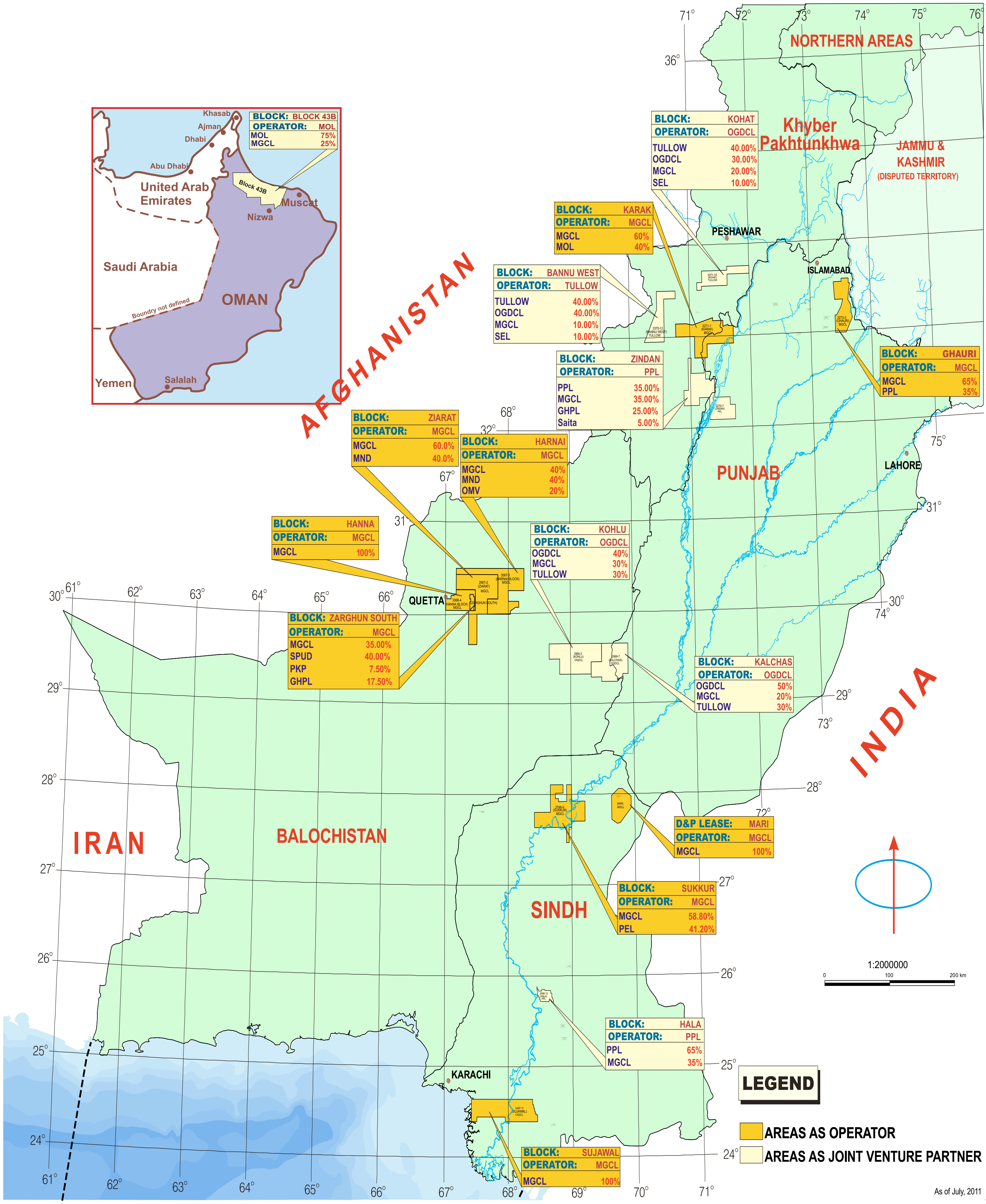
MGCL primarily operated as a production company till 1997, developing in phases the discovered Habib Rahi Reservoir in Mari gas field for supply of gas to new fertilizer plants. Simultaneous with these development phases, the Company also pursued appraisal activities within its Mari D&P Lease area by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

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

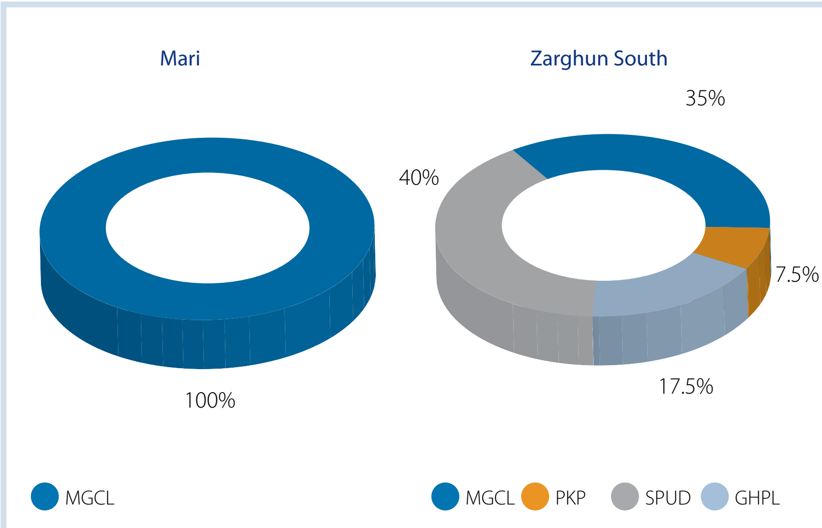
In its exploration segment, MGCL is operating total seven exploration blocks i.e. three exploration blocks (Ziarat, Hanna & Harnai) and one D&P Lease (Zarghun South) in Balochistan, two exploration blocks in Sindh (Sukkur & Sujawal) and one Mari D&P Lease (Daharki), one in Khyber Pakhtunkhwa (Karak) 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, Zindan & Bannu West) 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.

(Company's Corporate Profile is available in video format on the website www.marigas.com.pk.)

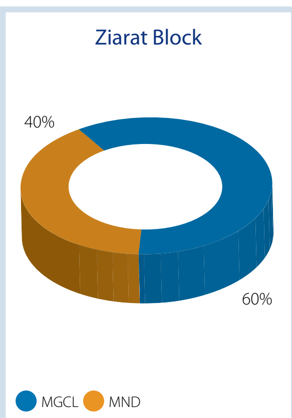
MGCL Concessions and Working Interests

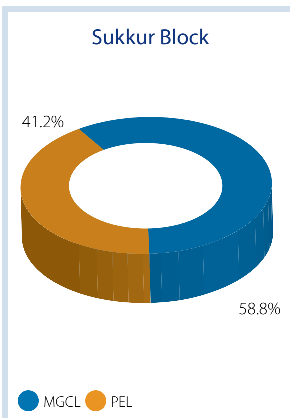


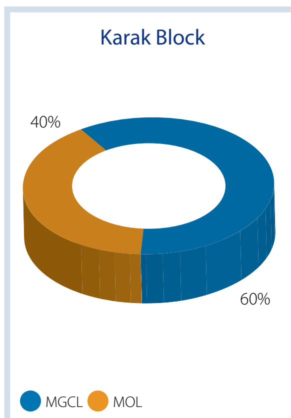
MGCL's Development & Production Leases

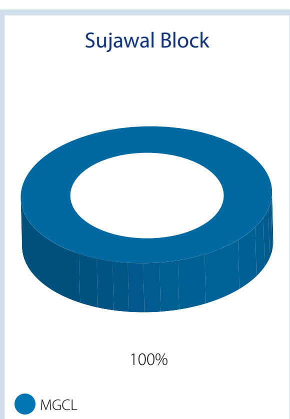


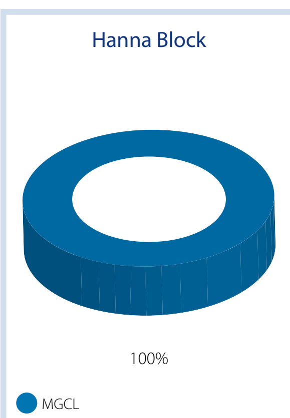
MGCL's Operated Blocks

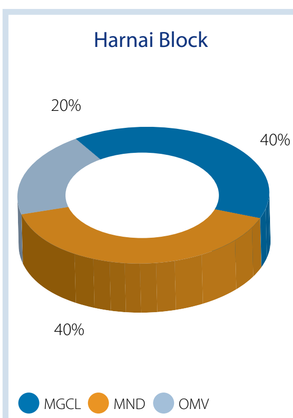


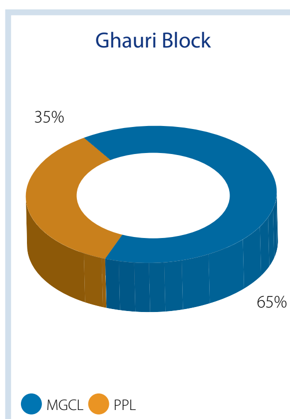






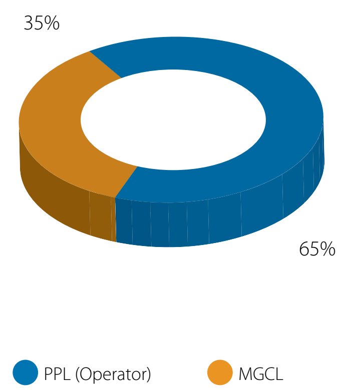




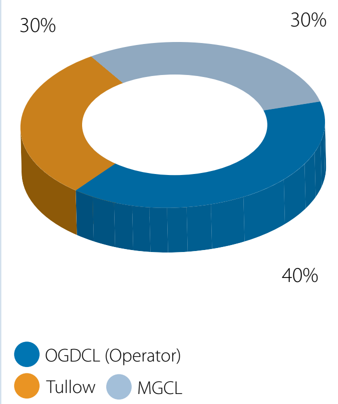


MGCL's Non-operated Blocks

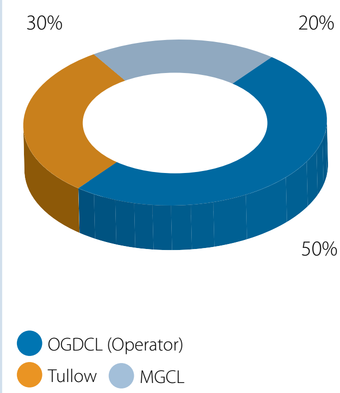
Hala Block



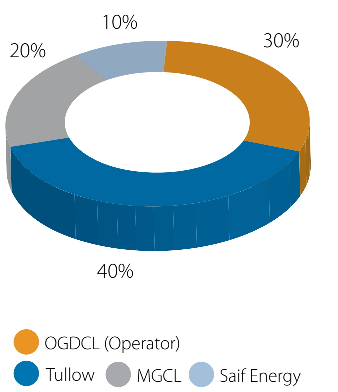
Kohlu Block



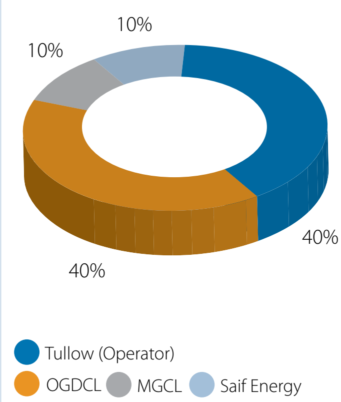
Kalchas Block



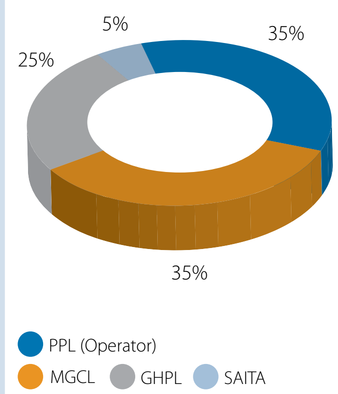
Kohat Block



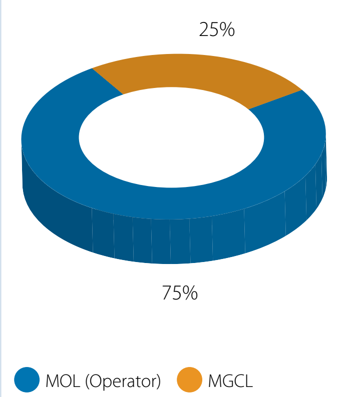
Bannu West Block



Zindan Block



Oman 43B (Overseas Block)



Integrated Management System Policy

To realize our strategic vision and to achieve professional excellence in petroleum sector, we are committed to meet requirements of Integrated Management Systems for Quality, Environment, Occupational Health & Safety and Information Security consistent with internationally recognized management system standards. We are devoted to maintaining 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 all resources required to ensure compliance with its IMS policy and to attain best international performance criterion.

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

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 business and their dealings with vendors, contractors, customers, joint venture participants and Government officials.

MGCL is committed to partnerships with suppliers and external collaborators who demonstrate the utmost professionalism and commitment to shared company values.

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, gender, color, age or disability subject to suitability for the job.

Internal Controls and Risk Management

MGCL is proud of its effective internal controls and risk management systems that contribute in the protection of company assets, efficiency and effectiveness of processes and reliability of financial information.

Employees' Wellbeing

Attention to people and their wellbeing, based on a balanced relationship between the demands of private life and work, is the foundation of MGCL policies.

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 the code in letter and spirit in their dealings on the Company's behalf.

Research & Development Initiative

In line with international best practices, MGCL had taken first of its kind R&D initiative with an outlook to meet 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 and gas 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.

In the year 2011-12 the Company carried out the following R&D related Projects:

a. **Acquisition of Pakistan Basin Study Report:** The report is being extensively utilized by MGCL professionals for R&D and related exploration activities.

b. **Improving Cementation in deep wells:** Dowell Schlumberger conducted a study to improve cementation. The study is being read at the ATC Conference with the objective of adding value and improving cementation on all difficult wells for the entire petroleum industry of Pakistan.

c. **Mitigation of Sweet Corrosion:** The R & D Study on sweet corrosion was completed and the selected equipment ordered for monitoring of corrosion and treatment. Installation will be made to ensure integrity of treatment and processing facilities.

d. **Feasibility & Design Study for Tight and Shale Gas Exploration through Fracturing Sembar Sandstone:** The

Study of Hydraulic Fracturing of the Tight Sembar Sands has been completed and a pilot well is being selected to test fracturing for enhancement of production from the Sembar Tight Sands. It is possible that non-conventional additional reserves may be proven.

e. **Feasibility & Design Study for Fracturing Habib Rahi Limestone to produce from its tight upper zone:** Currently 4 wells are drilled and the fifth is underway. Additional data related to geo-mechanics has been acquired and core analysis studies are planned to be conducted. MDT and DST pressure tests were conducted so that the "Zone - B" and "Zone - A" reservoir pressure is checked. A new reservoir simulation study will be carried out with a Static model in "Zone - A" to determine the optimum recovery of both conventional "Zone - B" and the tight "Zone - A" Reservoir.

f. **Industry Academia Collaboration: Creation of MGCL Chair in Department of Earth Sciences Quaid-i-Azam University – (QAU):**

In line with its industry academia collaboration, MGCL signed on May 28, 2012 a Memorandum of Agreement with Quaid-i-Azam University for creation of a professional chair in the Department of Earth Sciences.

MGCL has sponsored the Chair at a cost of Rs. 4.0 million per year for research in the field of Geophysics for advancement of academia and industry objectives.

Visit of Technical students of QAU & NED universities to Mari Field Daharki to observe Drilling operations:
Mari Gas Company gave a unique opportunity to many students of Earth Sciences department of QAU and NED University to observe the drilling operations that took place at Mari Field Daharki in the month of June 2012. The entire visit (boarding/lodging/transport) was sponsored by the Company. The purpose of this visit was to equip the students with practical knowledge of drilling operations which would benefit them when they enter the market.

Sponsorship to University of Peshawar for conducting International Technical Conference:
After the success of the HR Symposium that was held in QAU as a part of Industry Academia collaboration, Mari Gas Company sponsored International Technical Conference on "Earth Sciences Pakistan" held on Jun 23-24, 2012 at Bara Gali Summer Campus, University of Peshawar. This conference was aimed at bringing together academic scientists, industry professionals, professional consultants and graduate students to present their latest findings on various aspects of earth sciences.

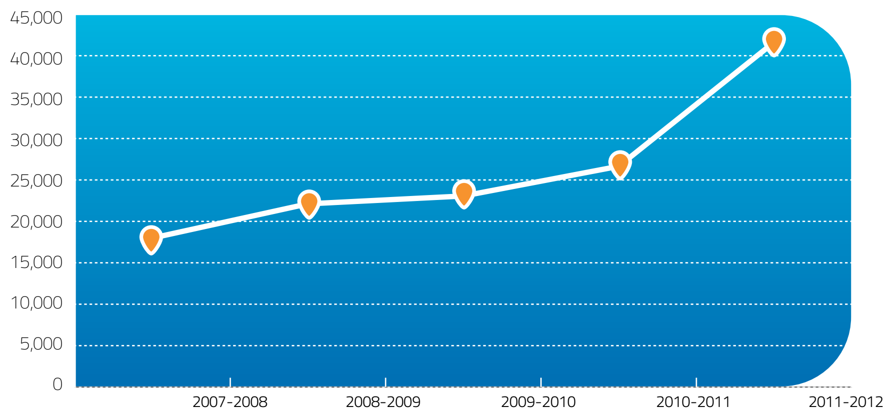
Summer Internships:
Apart from the above, internship to technical students from 8 renowned HEC recognized universities have been offered during this summer at our Head office and Mari Field Daharki.

Financial Highlights

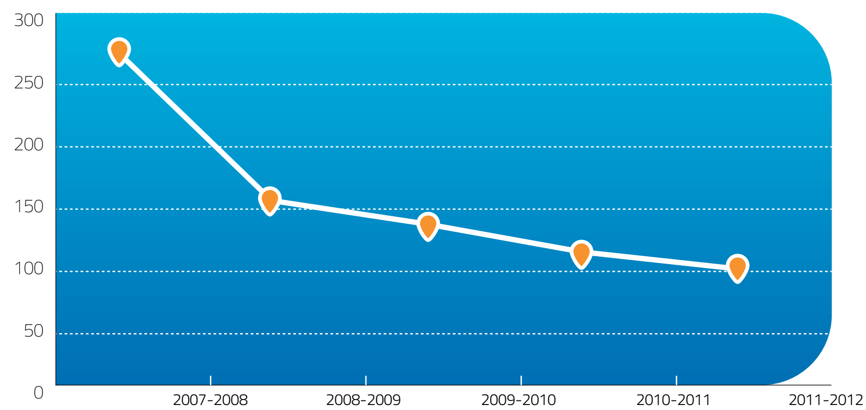
		Year 2011-12	Year 2010-11
Revenue	Rupees in million	48,228.33	32,177.82
Government levies	Rupees in million	41,617.72	26,647.09
Profit before tax	Rupees in million	1,402.50	2,708.90
Profit after tax	Rupees in million	1,115.17	1,725.30
Dividend per share	Rupees	3.37	3.34
Property plant & equipment - at cost	Rupees in million	7,560.05	7,417.33
Number of shares issued and subscribed	Shares In Million	91.88	73.50

Financial Highlights

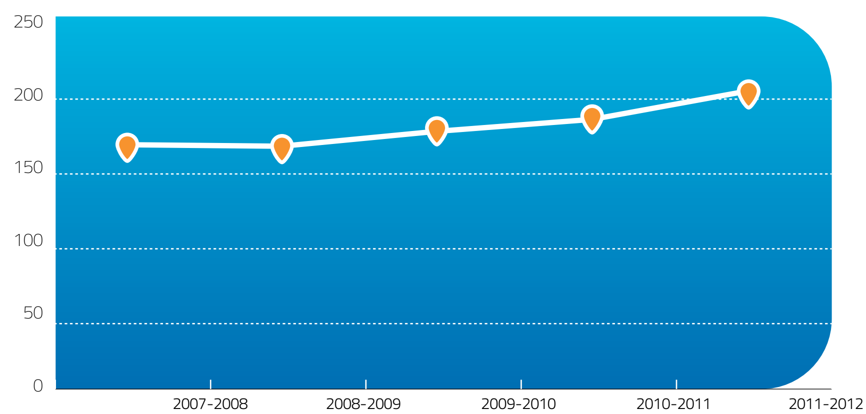
Government Levies
(Rupees in million)



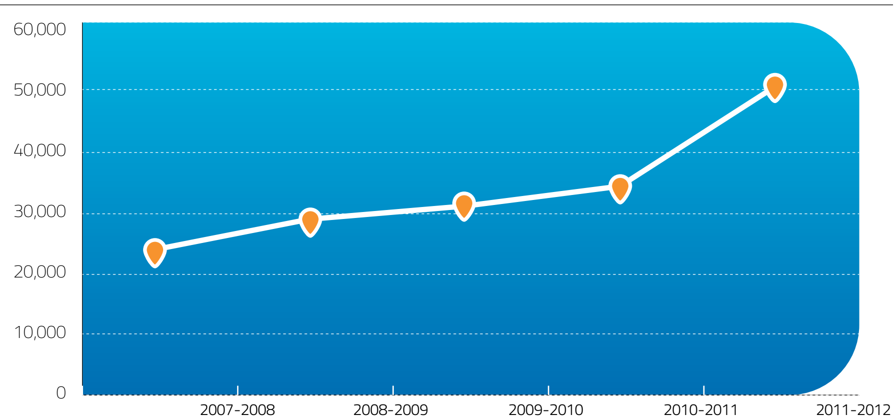
Market Share Price Trend
Price Per Share (Rupees)



Gas Volume
(in BSCF)

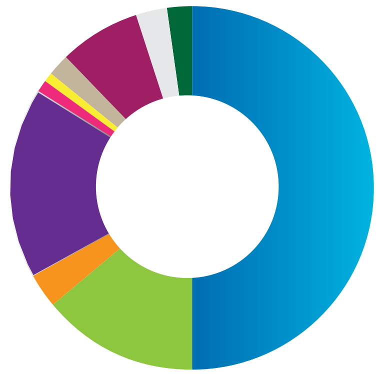


Gross Revenue
(Rupees in million)



Application of Revenue Earned
for the year 2011-12

- Gas Development Surcharge
- General Sales Tax
- Excise Duty
- Gas Infrastructure development cess
- Windfall / petroleum levy
- Other charges
- Taxation
- Royalty
- Operating Expenses
- Exploration & Prospecting Expenditure
- Finance cost



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for the year 2010-11

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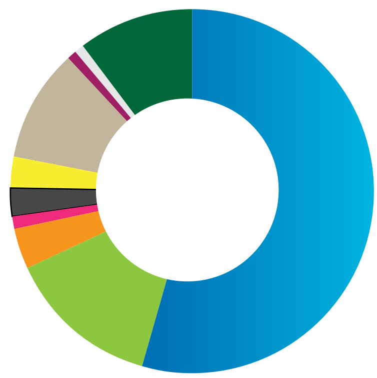
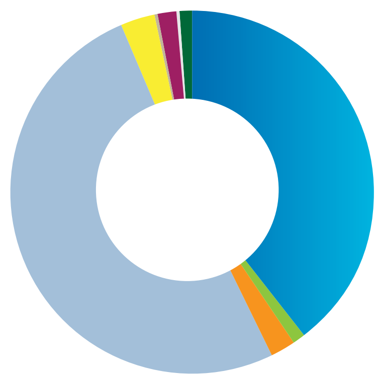


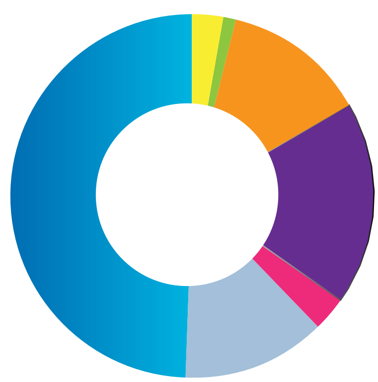
Assets
for the year 2011-12

- Fixed assets
- Long term loans & advances
- Long term deposits & prepayments
- Deferred Income Tax assets
- Stores and spares
- Trade debts
- Loans and advances
- Interest accrued
- Others receivables
- Short term prepayments
- Income tax paid in advance
- Cash and bank balance



Equities & Liabilities
for the year 2011-12

- Issued, subscribed & paid up capital
- Undistributed percentage return reserve
- Exploration and evaluation reserve
- Profit and loss account
- Long term financing - secured
- Deferred liabilities
- Current liabilities



Ten Years at a Glance

(Rupees in million)

	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
FINANCIAL										
Revenue	48,228.33	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
Government levies										
Income tax, workers' funds, royalty, excise duty, sales tax, surcharge on gas, Infrastructure development cess and windfall/ petroleum levy	41,617.72	26,647.09	23,061.72	22,117.41	17,993.02	20,023.99	17,771.56	14,117.36	12,195.90	10,594.20
Net Turnover	7,555.92	7,128.27	6,423.01	5,789.20	6,697.20	3,677.11	2,811.71	2,693.94	2,762.78	2,436.17
Operating profit	1,725.80	2,778.43	2,460.75	2,545.84	4,112.10	1,237.48	344.09	656.49	990.97	1,149.98
Net profit before tax	1,402.50	2,708.90	2,341.47	2,394.73	3,960.31	1,382.14	602.64	677.93	936.82	1,052.35
Net profit after taxation	1,115.17	1,725.30	1,185.95	2,151.92	2,560.41	683.89	189.25	361.52	519.80	646.01
Issued & paid up capital	918.75	735.00	735.00	367.50	367.50	367.50	367.50	367.50	367.50	367.50
Reserves	10,557.40	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
Property, plant & equipment	7,560.05	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
Net current assets	4,284.04	3,265.80	3,231.97	898.45	861.62	942.62	805.72	808.73	882.37	701.01
Long term financing, provisions & deferred liabilities	5,362.28	4,966.34	4,471.03	3,108.47	2,143.80	1,361.60	1,528.39	1,939.45	2,265.83	2,326.72
INVESTOR INFORMATION										
Earning per share (EPS)	4.94	4.14	4.58	3.71	6.43	5.68	5.06	4.45	4.07	3.79
Earning per share - as per GPA	12.14	18.78	16.14	29.28	69.67	18.61	5.15	9.84	14.14	17.58
Debtor turnover	88	80	85	66	33	22	20	21	22	42
Market value per share at the end of year	93.81	107.37	129.38	148.83	269.53	175.00	126.50	194.65	82.95	67.05
Price earning Ratio	18.99	25.93	28.25	40.12	41.92	30.81	25.02	43.76	20.41	17.69
Dividend	309.44	245.71	227.85	118.23	119.00	118.26	113.85	111.98	110.84	110.25
Cash dividend per share	3.37	3.34	3.10	3.22	3.24	3.22	3.10	3.05	3.02	3.00
Dividend Yield	3.59%	3.11%	2.40%	2.16%	1.20%	1.84%	2.45%	1.57%	3.64%	4.47%
Dividend payout ratio	68.22%	80.68%	67.69%	86.79%	50.36%	56.66%	61.29%	68.50%	74.19%	79.16%
Return on capital employed	12.90%	21.90%	20.55%	23.95%	49.72%	30.20%	15.36%	15.71%	21.09%	27.26%
Debt : Equity ratio	7.62 : 92.38	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
Liquidity ratio	1.21	1.28	1.37	1.08	1.16	1.19	1.16	1.19	1.29	1.21
Debt service ratio	2.19 : 1	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
NATURAL GAS										
Development & production leases (sq. kilometers)	969.30	969.30	969.30	969.30	969.30	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	6,988.00	6,800.00	6,800.0	6,800.0	6,800	6,309	6,309
Cumulative production (BSCF)	4,216.1	4,009.7	3,821.9	3,642.2	3,472.5	3,301.1	3,128.6	2,958	2,795	2,636
Number of producing wells	107	99	98	89	88	86	84	83	77	64
Production (BSCF)	206.5	187.8	179.7	169.7	171.4	172.5	171.0	162.0	159.0	156.0
Daily average (BSCF)	0.564	0.515	0.492	0.465	0.468	0.473	0.469	0.445	0.434	0.428
OIL										
Production (BBL)	124,279	130,093	62,212	41,510	-	-	-	-	-	-
LPG										
Production (MT)	2,062	5,031	1,231	-	-	-	-	-	-	-

Horizontal Analysis - Balance Sheet

(Rupees in million)

	2012 (Rs.)	12 Vs 11 %	2011 (Rs.)	11 Vs 10 %	2010 (Rs.)	10 Vs 09 %	2009 (Rs.)	09 Vs 08 %	2008 (Rs.)	08 Vs 07 %
EQUITY AND LIABILITIES										
SHARE CAPITAL AND RESERVES										
Issued, subscribed and paid up capital	919	25.03	735	-	735	99.73	368	-	368	-
Undistributed percentage return reserve	420	(14.29)	490	34.62	364	(42.95)	638	32.09	483	32.33
Exploration and evaluation reserve	4,150	2.29	4,057	44.89	2,800	43.52	1,951	63.26	1,195	134.77
Profit and loss account	5,987	11.12	5,388	1.83	5,291	0.32	5,274	27.05	4,151	65.12
General reserve	-	-	-	-	-	(100.00)	2	-	2	-
	11,476	7.55	10,670	16.10	9,190	11.62	8,233	32.81	6,199	64.95
NON CURRENT LIABILITIES										
Long term financing - secured	947	(27.15)	1,300	(24.42)	1,720	43.33	1,200	140.00	500	-
Deferred liabilities	4,416	20.43	3,667	41.80	2,586	35.46	1,909	16.12	1,644	20.79
Deferred income tax liability	-	-	-	(100.00)	165	-	-	-	-	-
- -	5,363	7.97	4,967	11.09	4,471	43.81	3,109	45.01	2,144	57.53
CURRENT LIABILITIES										
Trade and other payables	15,951	75.44	9,092	21.19	7,502	(10.09)	8,344	180.38	2,976	(7.78)
Current maturity of long term financing	442	5.24	420	10.53	380	100.00	-	-	-	(100.00)
Interest accrued on long term financing	56	(28.21)	78	(11.36)	88	100.00	50	194.12	17	100.00
Provision for income tax	-	(100.00)	184	275.51	49	(93.16)	716	(42.95)	1,255	73.58
	16,449	68.29	9,774	21.89	8,019	(11.98)	9,110	114.45	4,248	4.58
	33,288	31.00	25,411	17.21	21,680	6.00	20,452	62.43	12,591	37.14
ASSETS										
NON CURRENT ASSETS										
Property, plant and equipment	4,472	(6.58)	4,787	5.44	4,540	(6.97)	4,880	41.12	3,458	119.42
Development and production assets	3,425	0.97	3,392	10.27	3,076	16.03	2,651	25.22	2,117	10.03
Exploration and evaluation assets	4,150	2.29	4,057	44.89	2,800	43.52	1,951	63.26	1,195	134.77
Long term loans and advances	7	250.00	2	(33.33)	3	-	3	-	3	-
Long term deposits and prepayments	10	(9.09)	11	-	11	10.00	10	42.86	7	(22.22)
Deferred income tax asset	491	305.79	121	100.00	-	(100.00)	947	35.09	701	349.36
	12,555	1.50	12,370	18.60	10,430	(0.11)	10,442	39.58	7,481	79.10
CURRENT ASSETS										
Stores and spares	807	66.39	485	67.24	290	40.78	206	11.35	185	1.09
Trade debts	15,152	96.60	7,707	26.34	6,100	(15.15)	7,189	202.82	2,374	62.94
Loans and advances	1,049	11.60	940	(20.14)	1,177	35.91	866	179.35	310	(38.25)
Short term prepayments	29	(39.58)	48	77.78	27	(6.90)	29	222.22	9	50.00
Interest accrued	17	142.86	7	(84.44)	45	200.00	15	25.00	12	(47.83)
Other receivables	534	621.62	74	1,750.00	4	(60.00)	10	100.00	5	25.00
Income tax paid in advance	194	100.00	-	-	-	-	-	-	-	-
Cash and bank balances	2,951	(21.93)	3,780	4.80	3,607	112.80	1,695	(23.48)	2,215	(21.70)
	20,733	58.98	13,041	15.92	11,250	12.39	10,010	95.89	5,110	2.12
	33,288	31.00	25,411	17.21	21,680	6.00	20,452	62.43	12,591	37.14

Vertical Analysis - Balance Sheet

(Rupees in million)

	2,012 (Rs.)	% Age	2,011 (Rs.)	% Age	2,010 (Rs.)	% Age	2,009 (Rs.)	% Age	2,008 (Rs.)	% Age
EQUITY AND LIABILITIES										
SHARE CAPITAL AND RESERVES										
Issued, subscribed and paid up capital	919	2.76	735	2.89	735	3.39	368	1.80	368	2.92
Undistributed percentage return reserve	420	1.26	490	1.93	364	1.68	638	3.12	483	3.84
Exploration and evaluation reserve	4,150	12.47	4,057	15.97	2,800	12.92	1,951	9.54	1,195	9.49
Profit and loss account	5,987	17.99	5,388	21.20	5,291	24.40	5,274	25.79	4,151	32.96
General reserve	-	-	-	-	-	-	2	0.01	2	0.02
	11,476	34.48	10,670	41.99	9,190	42.39	8,233	40.26	6,199	49.23
NON CURRENT LIABILITIES										
Long term financing - secured	947	2.84	1,300	5.12	1,720	7.93	1,200	5.87	500	3.97
Deferred liabilities	4,416	13.27	3,667	14.43	2,586	11.93	1,909	9.33	1,644	13.06
Deferred income tax liability	-	-	-	-	165	0.76	-	-	-	-
	5,363	16.11	4,967	19.55	4,471	20.62	3,109	15.20	2,144	17.03
CURRENT LIABILITIES										
Trade and other payables	15,951	47.92	9,092	35.78	7,502	34.60	8,344	40.80	2,976	23.64
Current maturity of long term financing	442	1.33	420	1.65	380	1.75	-	-	-	-
Interest accrued on long term financing	56	0.16	78	0.31	88	0.41	50	0.24	17	0.14
Provision for income tax	-	-	184	0.72	49	0.23	716	3.50	1,255	9.96
	16,449	49.41	9,774	38.46	8,019	36.99	9,110	44.54	4,248	33.74
	33,288	100.00	25,411	100.00	21,680	100.00	20,452	100.00	12,591	100.00
ASSETS										
NON CURRENT ASSETS										
Property, plant and equipment	4,472	13.43	4,787	18.84	4,540	20.94	4,880	23.86	3,458	27.46
Development and production assets	3,425	10.29	3,392	13.35	3,076	14.19	2,651	12.96	2,117	16.81
Exploration and evaluation assets	4,150	12.47	4,057	15.96	2,800	12.92	1,951	9.54	1,195	9.49
Long term loans and advances	7	0.02	2	0.01	3	0.01	3	0.01	3	0.02
Long term deposits and prepayments	10	0.03	11	0.04	11	0.05	10	0.05	7	0.06
Deferred income tax asset	491	1.48	121	0.48	-	-	947	4.63	701	5.57
	12,555	37.72	12,370	48.68	10,430	48.11	10,442	51.05	7,481	59.41
CURRENT ASSETS										
Stores and spares	807	2.42	485	1.91	290	1.34	206	1.01	185	1.47
Trade debts	15,152	45.52	7,707	30.33	6,100	28.14	7,189	35.15	2,374	18.85
Loans and advances	1,049	3.15	940	3.70	1,177	5.43	866	4.23	310	2.46
Short term prepayments	29	0.09	48	0.19	27	0.12	29	0.14	9	0.07
Interest accrued	17	0.05	7	0.03	45	0.21	15	0.07	12	0.10
Other receivables	534	1.60	74	0.29	4	0.02	10	0.05	5	0.04
Income tax paid in advance	194	0.58	-	-	-	-	-	-	-	-
Cash and bank balances	2,951	8.87	3,780	14.87	3,607	16.63	1,695	8.30	2,215	17.60
	20,733	62.28	13,041	51.32	11,250	51.89	10,010	48.95	5,110	40.59
	33,288	100.00	25,411	100.00	21,680	100.00	20,452	100.00	12,591	100.00

Horizontal Analysis - Profit and Loss Account

(Rupees in million)

	2012 (Rs.)	12 Vs 11 %	2011 (Rs.)	11 Vs 10 %	2010 (Rs.)	10 Vs 09 %	2009 (Rs.)	09 Vs 08 %	2008 (Rs.)	08 Vs 07 %
Gross sales to customers	47,425	51.03	31,402	10.22	28,491	7.38	26,532	23.03	21,566	(2.90)
Gas development surcharge	22,941	29.46	17,720	0.06	17,710	8.90	16,263	47.04	11,060	(21.33)
General sales tax	6,359	43.22	4,440	14.14	3,890	6.31	3,659	30.12	2,812	(2.97)
Excise duty	1,475	8.30	1,362	102.68	672	5.66	636	(0.94)	642	(0.31)
Gas infrastructure development cess	7,937	100.00	-	-	-	-				
Wind fall / petroleum levy	335	25.94	266	731.25	32	100.00	-	-		
Surplus payable to the President of Pakistan as per the Agreement	822	69.14	486	(305.93)	(236)	(227.57)	185	(47.89)	355	(61.95)
	39,869	64.25	24,274	10.00	22,068	6.39	20,743	39.51	14,869	(19.77)
Sales - net	7,556	6.00	7,128	10.98	6,423	10.95	5,789	(13.56)	6,697	82.13
Royalty	969	9.25	887	9.78	808	11.60	724	(13.50)	837	81.96
	6,587	5.54	6,241	11.15	5,615	10.86	5,065	(13.57)	5,860	82.16
Operating expenses	3,456	15.32	2,997	24.41	2,409	37.97	1,746	35.66	1,287	13.49
Exploration and prospecting expenditure	1,639	332.45	379	(49.13)	745	(3.75)	774	67.90	461	(45.51)
Other operating income	356	173.85	130	381.48	27	800.00	3	(75.00)	12	100.00
Other charges	123	(43.06)	216	51.05	143	(11.73)	162	(52.63)	342	167.19
Operating profit	1,725	(37.93)	2,779	18.51	2,345	(1.72)	2,386	(36.91)	3,782	241.03
Finance income	447	(30.81)	646	39.83	462	40.00	330	(9.84)	366	(16.25)
Finance cost	770	7.54	716	53.98	465	44.86	321	70.75	188	14.63
Profit before taxation	1,402	(48.25)	2,709	15.67	2,342	(2.21)	2,395	(39.52)	3,960	186.54
Provision for taxation	287	(70.83)	984	(14.88)	1,156	375.72	243	(82.64)	1,400	100.57
Profit for the year	1,115	(35.36)	1,725	45.45	1,186	(44.89)	2,152	(15.94)	2,560	274.27

Vertical Analysis - Profit and Loss Account

(Rupees in million)

	2,012 (Rs.)	% Age	2,011 (Rs.)	% Age	2,010 (Rs.)	% Age	2,009 (Rs.)	% Age	2,008 (Rs.)	% Age
Gross sales to customers	47,425	100.00	31,402	100.00	28,491	100.00	26,532	100.00	21,566	100.00
Gas development surcharge	22,941	48.37	17,720	56.43	17,710	62.16	16,263	61.30	11,060	51.28
General sales tax	6,359	13.41	4,440	14.14	3,890	13.65	3,659	13.79	2,812	13.04
Excise duty	1,475	3.11	1,362	4.34	672	2.36	636	2.40	642	2.98
Gas infrastructure development cess	7,937	16.74	-	-	-	-	-	-	-	-
Wind fall / petroleum levy	335	0.71	266	0.85	32	0.11	-	-	-	-
Surplus payable to the President of Pakistan as per the Agreement	822	1.73	486	1.55	(236)	(0.83)	185	0.70	355	1.65
	39,869	84.07	24,274	77.30	22,068	77.46	20,743	78.18	14,869	68.95
Sales - net	7,556	15.93	7,128	22.70	6,423	22.54	5,789	21.82	6,697	31.05
Royalty	969	2.04	887	2.82	808	2.84	724	2.73	837	3.88
	6,587	13.89	6,241	19.87	5,615	19.71	5,065	19.09	5,860	27.17
Operating expenses	3,456	7.29	2,997	9.54	2,409	8.46	1,746	6.58	1,287	5.97
Exploration and prospecting expenditure	1,639	3.46	379	1.21	745	2.61	774	2.92	461	2.14
Other operating income	356	0.75	130	0.41	27	0.09	3	0.01	12	0.06
Other charges	123	0.26	216	0.69	143	0.50	162	0.61	342	1.59
Operating profit	1,725	3.64	2,779	8.85	2,345	8.23	2,386	8.99	3,782	17.54
Finance income	447	0.94	646	2.06	462	1.62	330	1.24	366	1.70
Finance cost	770	1.62	716	2.28	465	1.63	321	1.21	188	0.87
Profit before taxation	1,402	2.96	2,709	8.63	2,342	8.22	2,395	9.03	3,960	18.36
Provision for taxation	287	0.61	984	3.13	1,156	4.06	243	0.92	1,400	6.49
Profit for the year	1,115	2.35	1,725	5.49	1,186	4.16	2,152	8.11	2,560	11.87

Statement of Value Addition

	Year 2011-12		Year 2010-11	
	(Rs in million)	% AGE	(Rs in million)	% AGE
Gross revenue	47,425.04	108.11	31,402.13	107.19
Less: Operating and exploration expenses	(3,589.01)	-8.18	(2,165.32)	-7.39
	43,836.03	99.93	29,236.81	99.80
Add: Other operating and financial income	803.29	1.83	775.69	2.64
Less: Other expenses	(770.23)	-1.76	(715.76)	-2.44
Total value added	43,869.09	100.00	29,296.74	100.00
DISTRIBUTED AS FOLLOWS:				
Employees as remuneration and benefits	1,431.53	3.26	1,117.01	3.81
Government as				
Levies	39,869.13	90.88	24,273.86	82.86
Royalty	968.60	2.21	887.40	3.03
Other charges	122.86	0.28	216.19	0.74
Company taxation	287.33	0.65	983.60	3.36
Dividends	82.64	0.19	69.22	0.24
	41,330.56	94.21	26,430.27	90.22
Shareholder as dividends	371.43	0.85	311.11	1.06
Social welfare	74.48	0.17	93.39	0.32
Retained within the business	661.09	1.51	1,344.96	4.59
	43,869.09	100.00	29,296.74	100.00

Pattern of Shareholding

as at June 30, 2012

No. of Shareholders	Shareholding			Total shares held
526	1	TO	100	25,128
851	101	TO	500	257,200
577	501	TO	1,000	433,350
842	1,001	TO	5,000	1,762,368
102	5,001	TO	10,000	754,200
149	10,001	AND	ABOVE	88,642,754
3,047				91,875,000

Categories of Shareholders as at June 30, 2012

Categories of Shareholders	Number	Shares held	Percentage
Directors, Chief Executive Officer and their spouse and minor children			
- Mr. Liaqat Ali - Director representing general public	1	625	0.0007
Associated Companies, undertakings and related parties			
- Fauji Foundation	1	36,750,000	40.0000
- Oil & Gas Development Company Limited	1	18,375,000	20.0000
NIT, NBP Trustee Department NI (U) Fund and National bank of Pakistan	3	8,051,057	8.7631
Banks, Development Financial Institutions and Non-Banking Financial Institutions	7	812,590	0.8845
Insurance Companies	4	1,541,175	1.6775
Mutual Funds			
- CDC - Trustee AKD Index Tracker Fund	1	5,354	0.0058
- CDC - Trustee KSE Meezan Index Fund	1	15,878	0.0173
- CDC - Trustee NIT- Equity Market Opportunity Fund	1	82,742	0.0901
- MCBFSL-Trustee Pak Oman Islamic Asset Allocation Fund	1	5,000	0.0054
- Acadian Frontier Markets Equity Fund	1	37,984	0.0413
Modarabas	4	28,500	0.0310
Shareholders holdings 5% or more voting interest*	*		
General Public			
- Local individuals	2,946	6,451,966	7.0225
Others			
- Government of Pakistan	1	16,721,250	18.2000
- Joint Stock Companies	57	1,092,543	1.1892
- Investment Companies	1	100,000	0.1088
- Leasing Companies	1	1,125	0.0012
- Trusts and Provident Funds	5	1,779,375	1.9367
- Other Executives	10	22,836	0.0249
	3,047	91,875,000	100.00

***Shareholders holdings 5% or move voting interest**			
Fauji Foundation		36,750,000	40.0000
Oil & Gas Development Company Limited		18,375,000	20.0000
Government of Pakistan		16,721,250	18.2000

Directors' Report

The Directors take pleasure in presenting their report together with the audited financial statements of the Company and the Auditors' report thereon for the year ended June 30, 2012.

Financial Results

The profit and appropriations for the year are as follows:

	Rs ' 000
Profit	
Profit for the year under review after taxation	1,115,166
Un-appropriated profit brought forward	5,388,001
	6,503,167
Appropriations	
First interim dividend @ 23.68 % per share declared in February 2012	217,560
Second interim dividend @10% per share declared in June 2012	91,875
Undistributed Percentage Return Reserve	113,578
Total appropriations for the year	423,013
	6,080,154
Represented by	
Exploration and evaluation reserve	93,215
Profit and loss account	5,986,939
	6,080,154

The directors have decided to retain Rs 113.578 million representing the balance of percentage return reserve relating to the year ended June 30, 2012 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, net amount of Rs 93.215 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 47,425 million from Rs 31,402 million in 2011-12 (51.03% increase). The increase is mainly due to increase in gas production, imposition of gas infrastructure development cess and increase in gas prices. The gas sales volume increased from 187,785 MMSCF to 206,455 MMSCF which is as per customer's withdrawal / requirement.
In addition, 62,090 barrels of condensate, 62,189 barrels of crude oil and 2,062 metric ton of LPG was produced and sold in the current period against 130,093 barrels of condensate and 5,031 metric ton of LPG in the comparative period. Company's contribution to the Government Exchequer amounted to Rs 41,618 million against Rs 26,647 million in the last year. The operating expenses amounted to Rs 3,456 million against Rs 2,997 million for last year.

The operating results in the financial statements for the year show profit after tax of Rs 1,115 million as against Rs 1,725 million of the previous year. Increase in operating expenses, exploration and prospecting expenditure due to charging off dry / abandoned wells and impairment of wells, royalty and decrease in finance income were the major reasons for decrease in profitability. This was partially offset with higher wellhead price, increase in other operating income and decrease in other charges and provision for taxation.

Earning per share (EPS) on the basis of distributable profit increased to Rs 4.94 per share from Rs 4.14 per share (restated) last year. However, EPS for the year on the basis of profit and loss account (including undistributable balance) decreased to Rs 12.14 per share as compared to last year's Rs 18.78 per share (restated).

The rate of return to the shareholders for the year under the revised gas price formula has increased proportionately to 37.06% against last year of 34.60% due to increase in production level.

Cash Flow Strategy

Cash and cash equivalents were Rs 2,951 million as against Rs 3,780 million in the previous year. During the year, cash was used mainly to undertake operating activities, 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 23.68% (2011: 23.43%) on ordinary shares in February 2012 followed by 2nd interim dividend of 10.00% (2011: 10.00%) on ordinary shares in June, 2012. This makes the total cash dividend payout to the shareholders during the year to 33.68% (2011: 33.43%) 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 2011-12 in terms of energy is equivalent to 26,417,896 barrels. This has resulted in foreign exchange saving of around Rs 283 billion for the current year assuming an average crude oil price of US$ 118.16 per barrel and foreign exchange rate of US$ = Rs 90.53 prevalent during the year.

In addition, Government revenues in the form of payments to the Government exchequer by the Company was around Rs 41,618 million during the year (Rs 26,647 million during 2010-11) on account of taxes, royalty, excise duty, sales tax, gas infrastructure development cess and gas development surcharge.

Operations

The Company continued un-interrupted gas supply throughout the year to all its customers namely, Engro Fertilizer Limited (EFL), Fauji Fertilizer Company Limited (FFC), Fatima Fertilizer Company Limited (FFCL), Pakistan Electric Power Company (PEPCO), Foundation Power Company Daharki Limited (FPCDL), Sui Northern Gas Pipeline Limited (SNGPL) and Sui Southern Gas Company Limited (SSGCL). The gas produced during the year ended June 30, 2012 was 206,455 MMSCF at a daily average of 564 MMSCF as against 187,785 MMSCF at daily average of 515 MMSCF for the corresponding period of last year as per the requirement/withdrawal of the customers.

In addition, 62,189 barrels of crude oil, 62,090 barrels of condensate and 2,062 metric ton of LPG was produced and sold in the current period as against 130,093 barrels of condensate and 5,031 metric ton of LPG in the comparative period.

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

Allocation of additional gas supply from Mari Gas Field

Based on wells production bringing the well # 85 on production, and reservoir data gathered so far, MGCL is in a position to enhance the production from its shallow reservoirs and supply additional 22 MMSCFD gas to any of the above said customers.

In this regard, MGCL has requested Ministry of Petroleum and Natural resources to allocate the said 22 MMSCFD gas for a period of approximately two years to any one of the existing customers; preferably from the Fertilizer sector.

Drilling of Infill Habib Rahi Limestone (HRL) Wells – Mari Gas Field

Drilling activities for 5 infill HRL wells with Sky Top Rig is in progress. Drilling crew from Rig Mari-1 has been engaged in drilling operations. In addition, administrative and technical support is provided by Daharki office as well. So far infill wells # 94, 95 and 97 have been successfully drilled and completed in Habib Rahi Lime Stone formation. Drilling of Infill wells # 92 and 93 will commence as per plan.

All the long lead items including Knock Out Drums (KOD), line pipe and surface equipment have been received at site. Contractor has been mobilized to site and construction / installation work is being carried out simultaneously with the drilling activities.

Drilling of Two Pirkoh and One Water Disposal Wells - Mari Gas Field

In order to drain the Pirkoh reservoir optimally and as part of the Management vision, drilling operations for Pirkoh 4 and 5 and one water disposal well at MDCPF are planned to commence during next year soon after work over operations of Khost-3 well at Ziarat block. Most of the requisitions pertaining to materials required for drilling the wells have been prepared and approved by the Management. Drilling operations will be commenced as per plan.

The total estimated cost of five infill wells, two pirkoh wells and re-entry in deep well is US$ 16.5 million.

Mari D&P Lease Seismic Survey

Reprocessing of approximately 1200 line km. 2D and 80 sq. km. 3D seismic data is currently in final stages with the consultants and is anticipated to be completed by the end September 2012. This would be followed by in-house interpretation for planning of additional wells in Mari D& P lease area.

The Company also plans to carry out 3D seismic of around 1000 sq. km. and contract has been awarded to consultants for carrying out 3D design study before embarking on 3D seismic data acquisition campaign. 3D seismic data acquisition in Mari Field is required primarily for effective placement of additional wells to drain Sui Main Limestone (SML) optimally. Based on the out-sourced studies, 144 BCF of in place gas has been verified at said level and these reserves can't be drained out from the existing two wells.

In addition, there are small prospects at SML and Pirkoh levels and thin gas column, which are worth to peruse. The present sets of 2D seismic data base do not give enough confidence to place the additional wells at optimum location. Resultantly, there is a possibility of additional gas reserves from these reservoirs as well as from Lower Goru sands.

Moreover, 3D seismic data will help to evaluate the unconventional hydrocarbon potential of Sembar and Lower Goru formations.

Accordingly, an amount of US $ 20 million is estimated to be incurred on 3D seismic data acquisition. Out of total allocated cost, US $ 10 million is placed for planned 3D seismic activity in year 2012-13, whereas remaining amount is budgeted for the planned activities during the year 2013-14.

Development of Zarghun Gas Field

Study by consultant for certification of tight gas reservoirs, mandatory requirement for qualification of tight gas incentive notified under Tight Gas Policy (TGP) 2011, has been completed. In the light of study results communicated by consultant, revised / supplemental development plan has been prepared for TGP price qualification and submitted to DGPC on May 22, 2012 after sharing the same with JV partners. Procurement process for production and processing facilities shall be initiated after the approval of revised field development plan.

Proposal for Investment in Joint Venture for Seismic Unit

Over the years, MGCL as well as other E&P companies are finding it increasingly difficult to arrange seismic surveys in their blocks. MGCL's seismic work plans are getting delayed, requiring repeated extension in license periods and hence seriously affecting the pace of Company's E&P activities and resulting in loss of business. This is mainly due to non-availability of adequate number of seismic companies for the areas where major volumes of E&P activities are planned. Therefore, the Company is working on the option of establishing a seismic acquisition unit by forming a joint venture with operatorship rights with a foreign seismic company.

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	100%	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

Drilling activity at Mari Field Daharki

Operated Blocks

Ziarat block

2D seismic data acquisition was not carried out due to non-availability of the seismic contractors and required FC troops.

In order to produce the well with artificial lift, the tie back seal assembly, casing hanger assembly and tubing head spool have been procured. The delivery of jet pump is expected in October 2012. The work over job at Khost Well # 3 shall be carried out in October / November 2012 in order to bring the said well on oil production. Thereafter Extended Well Testing (EWT) is expected to commence in November / December 2012.

The philosophy for disposal of produced water from the well has been formulated and purchase of Gun Barrel Tanks, Water Treatment Plant & Evaporators is in progress.

Karak block

Subsequent to Halini Oil discovery, MGCL intends to acquire around 330 sq. km 3D seismic data over Halini discovery area for placing appraisal wells at discovery area and delineation of additional drillable prospects after its processing and in-house interpretation.

Contract for 3D seismic data acquisition has been awarded to contractor based on the competitive bidding. Presently, preparations are in place to commence recording by end October/early November 2012, which would be followed by 2D seismic data acquisition over existing leads within the block for firming-up prospect for drilling of exploratory well. The entire seismic campaign will be completed by March 2014. Based on the in house interpretation of 3D seismic data, additional appraisal wells would be planned over Halini discovery area.

Detailed engineering study of Halini oil facilities has been carried out by the consultants and designs have been evaluated satisfactorily in Hazards & Operability (HAZOP) conference. BOQs and specification for civil, mechanical and electrical works have been prepared and purchase requisitions are accordingly being initiated. Onsite execution for development activities will be carried out as per plan.

MGCL has applied for two years extension in 3rd license year against the commitment of 150 Sq. km 3D and 150 line km 2D seismic data acquisition to complete the acquisition, processing and interpretation.

Halini Well-1 is under production since January 2012 and 103,153 bbl (MGCL's share: 61,892 bbl) of crude oil was produced and sold during the period.

Sukkur block

The 3rd exploratory well Mian Miro-1 was drilled to the depth of 1250 m and completed on May 24, 2012. During (DST), SML produced gas at 1.44 MMSCFD and SUL produced gas at 0.45 MMSCFD. Short duration test (SDT) for eight weeks (four weeks each for SML and SUL) has been planed to monitor the flow rates, evaluate reservoir characteristics and its depletion trend and to determine the true potential of the well before bringing it on gas production through EWT. Accordingly, a letter has been sent to DGPC for approval of flaring the gas during testing, while adhering to the best industry practices.

Subsequently, MGCL intends to apply for one year extension to conduct SDT and to complete the G&G studies in order to determine the remaining hydrocarbons potential of the block.

With the installation and commissioning of Amine Sweatning Unit having capacity of 10 MMSCFD, production from Koonj Well-1 was resumed since October 2011 and 667.742 MMSCF (MGCL's share: 392.602 MMSCF) of gas was produced and sold during the period.

Hanna block

Based on the results of in-house 2D seismic data interpretation and mapping the location of exploratory well, Hanna X-1 has been finalized. Preparations are underway to drill Hanna Well X- 1 by 1st quarter of 2013 to test the hydrocarbons' potential of Dunghan and Chiltan formations down to a total depth of +1110 m. Already procured long lead items for Khost Wells will be utilized for drilling the well. The process of acquiring the required services for drilling of Hanna X-1 is in progress. The pre-spud activities, such as preparations of well site location / civil works are being undertaken prior to rig mobilization.

Harnai block

MGCL is in constant communication with seismic contractor and pursuing them to commence seismic operations to acquire 146 line km 2D seismic data in the block. However, they are reluctant to commence the work due to security concerns.

Sujawal block

Term sheet for gas sales from Sujawal was signed with M/s SSGC. Accordingly, SSGC shall construct 22 km transmission pipeline from

Sujawal well to their tie-in point. During the EWT period, MGCL shall supply the dehydrated gas without further processing.

The procurement of long lead items is in progress. After construction and commissioning of surface facilities, EWT of the well is expected to commence in January 2013.

Contract for acquisition of 110 line km 2D seismic data has been awarded to consultant based on competitive bidding. It is expected that seismic data acquisition will commence by the end of November 2012 and will be completed by January 2013, which will be followed by processing and in-house interpretation for firming-up prospect for drilling of second exploratory well.

Ghauri block

Acquisition of 252 line km 2D seismic data is in progress. It is anticipated that the data acquisition would be completed by the end of September 2012 which would be followed by processing. It is expected that the well location would be finalized by the end of December 2012 based on data processing and in house interpretation. Meanwhile design and planning of materials required for drilling of well Ghauri X-1 is in progress.

Reprocessing of 650 line km 2D vintage seismic data is in progress with the consultant and it is expected to be completed by the end of November 2012

Non Operated Blocks

Hala block

Adam discovery is under production since December 2009 and 1,553.731 MMSCF (MGCL's share: 543.806 MMSCF) of gas, 97,297 bbl (MGCL 's share: 34,054 bbl) of condensate and 5,891 MT (MGCL's share: 2,062 MT) of LPG were produced and sold during the period.

The 2nd exploratory Bhit Shah Well-1 was drilled down to 3730 m into Lower Goru Formation. Based on the wire line log results, one DST was conducted against Upper Basal sands of Lower Goru Formation. The said DST tested non- commercial gas, thus, the well was temporarily suspended to conduct work over job provision subject to encouraging results of outsourced frac. feasibility study.

Kohlu block

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

Kalchas block

JV operator's team visited Khup and Mari structure areas and marked tentative locations for drilling of two committed exploratory wells. Meanwhile preparations are underway to proceed further.

Kohat block

The second exploratory well Jabbi-1 was drilled down to 4020 m into Lumshiwal formation. Based on the wire line logs results, four DSTs were conducted i.e two DST in Lumshiwal formation, one DST each in Hangu and Lockhart formations. However, the well was plugged and abandoned due to absence of commercial hydrocarbons.

Kohat Well-1 (replacement well of Sheikhan Well-1) has been drilled down to the depth of 1710 m and presently preparations are underway to conduct DST against Lumshiwal formation.

Sheikhan Well-1 is under production since December 2010 and 1,235 bbl (MGCL share 247 bbl) of condensate

and 269.525 MMSCF (MGCL's share: 53.905 MMSCF) of gas was produced and sold during the period.

Bannu West block

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

Oman 43 B Farm-Out Technical Justification

Based on due diligence of geological field work, reprocessed 2D seismic data, two leads were identified in Block 43B Oman and accordingly MGCL farmed-in the block on July 2, 2008 with acquisition of 25% working interest, which is operated by MOL with 75% share.

Seismic data of 973 line km was acquired over the identified leads, which resulted in identification of one potential lead in Hawasina Area in the block.

Subsequently, MGCL proposed to acquire additional seismic data over Hawasina Lead to firm-up the sub-surface trap. Based on the results of newly acquired seismic data, the Operator firmed-up an exploratory well over the proposed prospect. However, MGCL considering it a high risk venture and limited hydrocarbons potential, decided to quit the block and farm-out its 25% share.

Zindan block

As of September 10, 2012, 168 line km. 2D seismic data has been acquired against planned 443 line km 2D seismic and it is anticipated that the said seismic survey would be completed by the end of December 2012. The data acquisition would be followed by processing/interpretation to identify drillable prospects.

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.

As part of the Company's vision, few exploration acreages have been identified / evaluated for possible farm-in / operatorship.

Research and Development

The Company has taken initiative to carry out research and development activities (R&D) with the objective of gaining knowledge and expertise to overcome the technical and operational problems and to enhance the oil and gas production more efficiently and economically.

Risk Management and Outlook

MGCL is progressing towards achieving its corporate vision of playing a key role in the country's energy sector while focusing on its achievements under a long-term sustainable business strategy. The fundamental constituents of MGCL's strategy are:

- Delivering un-interrupted petroleum products supplies to customers and maintaining good customer relationship.
- Achieving cost effectiveness through improved operational efficiency and optimizing resource utilization.
- Building on new prospects by exploiting exploration opportunities in key resource areas.
- Ensuring alignment of financial, technical and manpower resources with Company's work programs, pace of development and expansion plans.
- Maintaining High HSEQ standards.
- Ensuring safe, reliable and healthy environment for the workforce.

In view of its strategic outlook, the Company plans to enhance gas production from its Mari D&P Lease reserves.

The Company's ongoing EWT operations over its gas discovery in Sukkur Block and oil discovery in Karak block are successfully underway. After concluding these tests, further appraisal/development plans for these discoveries will be finalized. Similarly, in its Sujawal block, the Company is installing early production facility for conducting EWT operations scheduled to commence in December this year to appraise the reserve size and production potential of the gas/condensate discovery made in the Sujawal Exploration Well.

The Company's investment plan for year 2012-13 also includes commencement of work on Zarghun South (ZS) gas/condensate development project in Baluchistan. The completion of ZS development project costing approximately US$70 million would bring on stream 20MMscfd gas for its transmission to capital city Quetta of Balochistan Province.

The Company remains committed to growth through its exploration strategies, and as such, it places great emphasis on maintaining a varied portfolio of exploration assets to establish and develop new prospects capable of delivering on key strategic objectives of the Company. Accordingly, the Company's major commitments are in acquisition of exploration acreages, new seismic data, modern technology, production and processing facilities, training and development, R&D initiatives and capital resources.

The Company's exploration segment thus shall be focused on acquiring extensive seismic in Sujawal, Karak, and Mari D&P lease areas besides drilling two exploration/appraisal wells in Hanna and Ghauri blocks. The Company based on its exploration strategies will also continue its scouting for possible new opportunities both locally and internationally to expand its exploration portfolio.

While the majority of the Company's activities are the result of internal prospect generation, the Company remains open to participation in opportunities generated by others that are consistent with our operating philosophy, and meet our technical and economic criteria.

The Company is well cognizant of the challenges it would face in pursuing its development and exploration strategies, with the traditional sources of fossil fuels becoming harder to access and more expensive to harness. Apart from the technical challenges the most distressing and daunting are the reality of security risks, generally in the country and more particularly in Balochistan and KPK, where the Company operates four exploration licenses and one development lease.

Moreover the energy challenge is not just a question of supply and demand, security un-certainties, technology and cost dynamics but for the Company it is also important to minimize environmental footprint of its progressive operations.

Meeting these challenge will have to be a collective effort involving the government authorities, the industry and of course the people. The Company, however, is determined to keep on track the pace and progress of its activities, is alert and adaptive to the needs of the circumstances as they unfold, particularly ensuring the safety and security of its work force in its operational areas.

Health, Safety and Environment (HSE)

HSE culture is fully entrenched

in Mari Gas Company with the persistent and devoted commitment of the Management. HSE management system implementation is evident in every sphere of MGCL activities; from environmental-friendly processes in business operations to taking care of health and safety of our employees, contractors and other stakeholders.

IMS Certification

Excellence in HSEQ performance is being achieved by streamlining our business processes, fulfilling the requirements of the international standards and best industry practices. MGCL is maintaining IMS certification for;

- ISO 9001: 2008 (Quality Management System)
- ISO 14001: 2004 (Environmental Management System)
- OHSAS 18001: 2007 (Occupational Health System Assessment Series)
- ISO 27001: 2005 (Information Security Management System)

Management commitment and employees contribution has been the driving force to meet the requirements of the standards. 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.

Moreover, focusing on the globalization of business trends and the advancement of corporate excellence in the organization, the Company also acquired ISO 27001, Information Security Management System in 2010 to ensure that our stakeholders are satisfied with the confidentiality, integrity and availability of business processes and information being used during operational activities.

Recently in 2012, the Company extended the scope of certification by including Rig Mari 1 and achieved IMS certification for ISO Quality Management System (ISO 9001), ISO Environmental System (ISO 14001) and Occupational Health and Safety Management System (ISO 18001). This Rig has performed drilling for Pakistan Petroleum Limited and other E&P companies and successfully passed through similar external ISO audits.

Occupational Health and Safety Management

The Company is maintaining OHSAS 18001 (Occupational Health and Safety Management System) standard for the last three years without any major non-conformance.

Risk Management

Project risk assessments and task risk assessments were carried out for the following activities:

- 2D Seismic Acquisition (Harnai Block)
- Halini X 1 EWT Production facility (Karak Block)
- Mian Miro X 1 Drilling Activity (Sukkur Block)
- 2D Seismic Acquisition (Ghauri Block)
- 3D seismic Acquisition (Karak Block)

Health and Safety Initiatives

We undertook the following Health and Safety initiatives during our operational activities:

- Development of objectives and targets with KPI's
- Development of HSE Plan for upcoming operational activities
- Hazards and Operability studies (HAZOP) for Halini production facility.
- Improvement in fire fighting capabilities at Mari Deep Central Processing Facilities
- Fire fighting capability enhancement through procurement of an additional fire tender for production facilities
- External and Internal HSE audits and inspections for all operational sites.
- Formal incident investigation for major incidents
- Establishment of fully equipped clinics at Halini and Koonj production facilities
- Health Risk Assessments for Mari Field, Koonj and Halini production facilities.
- Annual medical check-up of all staff and in particular staff deputed at remote locations and analysis of data
- Smoking free premises at all locations including Head office
- Heat stress management centres at Mari Field, Rig Mari 1, Halini and Koonj facilities.
- Malaria and dengue prevention campaign at all locations

Environmental Management

Following initiatives were undertaken as part of environmental management:

- Initial Environmental Examination (IEE) for 2D/3D Seismic and Drilling activity at Ghauri block
- IEE for five Infill wells at Habib Rahi Formation Mari Field
- IEE for 2D/3D Seismic and Drilling activity at Karak block (Punjab)
- EIA for 2D/3D Seismic and Drilling activity at Karak block (Khyber Pakhtunkhwa)
- IEE for EWT /Production Facility for Halini Karak Block
- Noise and ambient air monitoring at Head Office and Mari Field
- Water quality monitoring at all production facilities

Tree plantation and Development of Green Areas to Protect the Environment

A fruit orchard has been established at Daharki on 18 acres of land. All sites have been instructed to develop green areas.

HSE Trainings

Employee's capacity building through training on HSE procedures and guidelines remained the focus of our activities so that as far as reasonably practicable, our workplaces, machinery and equipment, and processes are safe without any risks to health. We ensured this by imparting following trainings at all locations through audio and visual aids:

- Stress Management
- Fire Fighting and Emergency Response drills at Head Office as well as Mari Field, Halini and Koonj facilities.
- Chemical Handling awareness sessions at Mari Field and Rig Mari 1
- Implementation of Permit to work system at Mari Field, Rig Mari 1, Halini and Koonj facilities
- Incident Investigation and Risk Assessment for management staff at Head office and Mari Field
- Basic First Aid at Mari Field and Head Office
- Office Ergonomics at Head Office and Mari Field
- Defensive driving at Head Office and Mari Field
- Use of breathing apparatus at Mari Field and Rig Mari 1
- H2S awareness at Halini and Koonj facilities

Human Resource Development

Following is a brief summary of number of employees that attended foreign/local courses, seminars, symposiums etc in the FY 2011-12.

	No. of Employees		
	Technical	Non Technical	Total
Foreign			
- Courses	14	6	20
- Conferences/Seminars	9	7	16
Local			
- Courses	7	14	21
- Conferences/Seminars	60	7	67

Learning Opportunities Provided to Students:

MGCL provides students with multiple learning opportunities provided to students:

MGCL provides students with multiple learning opportunities in the form of field visits, internships and sponsoring technical conferences at universities. Its sole purpose is to raise the skill set and standard of professional education in our country. Following are a few examples:-

I. **Sponsorship to Conduct Technical Conferences:-**

In a first of its kind initiative, the Company was a major sponsor of the symposium titled "Exploring HR Practices in the Oil & Gas Industry" held on March 22, 2012 arranged by PPEPCA (Pakistan Petroleum Exploration and Production Companies Association) along with Quaid-e-Azam School of Management Sciences and Earth Sciences department. Dr. Asim Hussain, Federal Minister for Petroleum and Natural Resources was the Chief Guest of the occasion. The event was attended by CEOs/MDs of various Oil and Gas companies, senior Government officials from the Ministry of Petroleum and Natural Resources, faculty members and students of 15 universities and industry experts. The total attendance was around 450 people.

After the success of this event, the Company also sponsored an International Technical Conference on "Earth Sciences Pakistan" held on Jun 23-24, 2012 at Bara Gali Summer campus, University of Peshawar. This conference was aimed at bringing together academic scientists, industry professionals, professional consultants and graduate students to present their latest findings on various aspects of earth sciences.

II. **Technical Training of Students of QAU & NED at Mari Field Daharki:-**
Mari Gas Company gave a unique opportunity to 22 Final Year Students of Quaid-e-Azam university (QAU) Islamabad-Earth Sciences Department and NED University Karachi-Petroleum Engineering Department to observe the drilling operations that took place at Mari Field Daharki. The entire visit (boarding/lodging/transport) was sponsored by the Company. The purpose of the program was to equip the students with practical knowledge of drilling operations which would benefit them when they enter the market. Furthermore, 6 internees of QAU along with one faculty member were also given an opportunity to undertake a field trip at Ghauri Block to observe seismic recording in the field at the Company's expense.

III. **Summer Internships and Field Trip:-** Internship to 36 students from 10 renowned HEC recognized universities was offered at different departments in Head Office, Islamabad and Mari Field Daharki.

Information Technology

MGCL uses cutting edge technologies and world acclaimed business processes to stay abreast with the new technological trends in the oil and gas sector around the globe. This makes us a leading company to have adopted top notch hardware and software in the industry, reinforced by our determination to operate in a paperless environment for an efficient and vibrant business.

SAP system implementation has helped the Company to adopt industry best practiced business processes, resulting better system controls and more cross functional integration. To further benefit from SAP system, more modules have been planned for implementation.

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)

i. **General**
CSR remains the focus of the Company's corporate strategy for building sustainable relations with local communities. In pursuance of its CSR mission, MGCL is continuously striving for provision of better facilities in multifarious fields including health, education, provision of clean water and communication

infrastructure etc by under taking various social welfare schemes in its operating areas. The Company also played a vital role in the relief activities during unprecedented floods in 2011.

The Company, as a responsible corporate entity, believes in playing effective role in sustainable development to ensure maximum economic benefit in its operational areas.

ii. **Education**

Education being important facet of corporate social activity, a substantial amount is being spent on construction, renovation and maintenance of various schools at all JV blocks as well as its own operating areas. One of the projects by MGCL is "Adoption of Middle Boys School Kamerser, District Mianwali". Repair and maintenance of existing building has been carried out. Furniture and sports items have been provided. Tender for construction of additional class rooms have been floated which will be under taken in near future.

Mari Field Daharki also remains the hub of educational activities where, in addition to existing education facilities provided by MGCL, the necessity of an additional educational setup was felt. Consequently, foundation stone of Mari Education Complex was laid on May 19, 2012. Construction work is undergoing at a rapid pace and 30% work has been completed so far. The purpose of this facility is to cater for the education needs of the children of the outsourced employees and the community residing in the vicinity of Mari Field, Daharki.

iii. **Water Supply Schemes**

Contaminated water is a major source of numerous diseases in the country. MGCL has contributed a lot in this field of paramount importance. Some of the details are as under:-

- Sind: At Mari Field Daharki, fifteen water tanks have been constructed and clean drinking water is being provided by our own tankers regularly.

Baluchistan

- A water channel has been constructed at Zarghun for providing clean drinking water to local community.
- A water supply scheme has been developed at Ziarat to meet the acute shortage of clean drinking water.
- Punjab: At Kamerser, Mianwali District numerous tube wells were installed, water wells were dug, and water supply scheme has been renovated by installing an electric regulator, repair of water tank and installation of water filtration plant.

iv. Health

- Improvement of facilities at rehabilitation center for multiple handicapped children at Allahabad, Shikarpur, along with provision of vehicle.
- An amount of Rs. 2.3 Million was given to Rehabilitation Centre for Handicapped at Sukkur city for complete renovation of centre along-with provision of vehicle.
- Free Eye Surgical Camp at Jati, District Thatta was established in July 2010.
- Free Medical Camp for skin diseases was arranged for flood affectees on request of District Government ,Shikarpur.
- Repair of 3 Schools at Ghotki Syed, District Shikarpur was carried out.
- Provision of electronic water cooler at Basic Health Center at High School village Haji Khan Chacher, District Sukkur.
- Construction of 5 wash rooms at High School village Haji Khan Chacher, District Sukkur.
- Rs. 2.5 million is being spent annually on a maternity home at union council Dad, Leghari which was made operational in 2003.
- A dispensary has been constructed at well No. 8, Daharki for the treatment of Tuberculosis patients.
- Mother & Child Healthcare Centre has been constructed at civil hospital Mir Pur Mathelo, costing Rs. 11 million.
- Hepatitis 'B' vaccination program being one of the major initiatives in the health sector, Rs. 60 million have been spent so far in vaccinating 130, 000 people of the area. Herbal treatment of the patients was also undertaken.

v. Communication Network

MGCL is also committed to providing better means of communication for easier access to far flung villages. A huge amount has been and is being spent on different projects in various block areas located in different parts of the country. Some of these projects are:-

- Approximately 250 KMs metalled road has been constructed at Mari field over the years.
- At Zarghun, about 20 KMs road has been repaired for general public.
- At Ziarat, 5 KMs road has been repaired.
- In Mianwali District, road from Kamerser to Alimahi village is under construction which shall go a long way in uplift of this backward area and well being of the people.
- About 14 bridges have been constructed at Mari lease area to facilitate local community.

vi. Social Activities of Mari Gas Company

Mari Gas Company is a socially responsible company that takes pride in its operations as well as the welfare of its employees and their families. The continuous nature of oil and gas business adds to the stress level of employees, thus leaving little time for formal and informal interaction within the Company, which is necessary for the development of organizational culture, team work and healthy environment in the organization.

Realizing its importance, the top management gave due importance to the social activities and spread them over the year for the ease of employees, and also linked them with the important national days to commemorate and communicate the spirit of these important days to the families and young ones through colorful events. Çompany's Silver Jubilee Celebrations, families get together, eid milad-un-Nabi celebrations, golf days, annual picnic for families of management and non management staff, eid milan parties, azadi get-together, senior management retreat, Iqbal day and Quaid-e-Azam day were celebrated with full zeal and enthusiasm by all employees and their families.

vii. **Future Projects**

Following projects will be implemented in near future:-

- Adoption of one school at each JV block.
- Arrangement of free medical/ eye camps during coming winter season at various locations in collaboration with Al – Shifa Eye Trust.
- Construction / Renovation of school buildings at Sujawal, Karak, Zarghun and Sukkur Blocks.
- Establishment of mobile dispensary at Sujawal.
- Construction of 3 new schools i.e one boys and two girls schools at Hanna, Balochistan
- Provision of clean drinking water at village Hanna Urak, District Quetta, Balochistan by digging tube well etc.
- Provision of clean drinking water at Kamerser by digging tube wells at 6 villages.

Directors

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

1. Lt Gen Hamid Rab Nawaz (Retd)
2. Brig Rahat Khan (Retd)

These vacancies were filled by:

1. Lt Gen Muhammad Mustafa Khan (Retd)
2. Brig Dr Gulfam Alam (Retd)

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

Board and Committee Meetings

Five meetings of the Board of Directors and thirteen Committee meetings were held during the financial year 2011-12. The attendance of directors in the meetings is as under:-

Name of Directors	Meetings Attended	
	Board Meetings	Committee Meetings
Lt. Gen Hamid Rab Nawaz (Retd)	1	-
Lt. Gen Muhammad Mustafa Khan (Retd)	3	-
Lt. Gen Raza Muhammad Khan (Retd)	5	-
Mr. Qaiser Javed	3	7
Dr. Nadeem Inayat	4	4
Maj Gen Zahid Parvez (Retd)	4	4
Brig. Dr Gulfam Alam (Retd)	4	5
Mr Sher Muhammad Khan	4	5
Mr Pervaiz Akhtar	5	7
Mr. Basharat A. Mirza	5	3
Mr. Muhammad Riaz Khan	5	7
Mr. Liaqat Ali	4	8
Mr Manzoor Ahmed	5	5

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 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 (CCG), has established an Audit Committee comprising of the following directors:

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 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;
- compliance with listing regulations and other statutory and regulatory requirements; and
- significant related party transactions.

c) Review of preliminary announcements of results prior to publication;

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 of activities characterized by fraud, corruption and abuse of power and management's response thereto;

i) Ascertaining that the internal control system including financial and operational controls, accounting system for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities 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 and internal audit reports;

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

l) Determination of compliance with relevant statutory requirements;

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

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

Technical Committee

Technical Committee of the Board comprises of the following members:

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.

HR and Remuneration Committee

HR and Remuneration Committee of the Board comprises of the following directors:

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

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

Pattern of Shareholding

A statement showing the pattern of shareholding as at June 30, 2012 is attached.

Code of Corporate Governance (CCG)

Securities & Exchange Commission of Pakistan (SECP) has issued CCG to establish a framework of good corporate governance whereby every listed company is managed in compliance with best practices. This CCG was incorporated in the listing regulations of all the Stock Exchanges for implementation by the listed companies. The Directors of the Company hereby confirm the following:

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) Approved accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements.

e) The system of internal control is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts regarding the Company's ability to continue as going concern.

g) Reasons for significant deviations from last year's operating results have been explained in the relevant sections of the Directors' report.

h) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

i) Key operating and financial data of last ten years is annexed.

j) Value of investments including bank deposits and accrued income/receivables of various funds as at June 30, 2011, based on their respective audited accounts, is as under:

Contributory provident fund	Rs	364.73	million
Management staff gratuity fund	Rs	409.48	million
Non-management staff gratuity fund	Rs	142.21	million

k) All major Government levies as mentioned in Note 11 to the financial statements payable as at June 30, 2012 have been deposited subsequent to the year-end except for PEPCO and FPCDL which are being paid as and when realized.

Auditors

The present auditors, M/s A.F. Ferguson & Company, Chartered Accountants, are due for retirement at the Annual General Meeting and being eligible, offer themselves for re-appointment as auditors of the Company for the next financial year.

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 production and 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 and other locations, Provincial Governments, various departments of Federal Government particularly the Ministry of Petroleum and Natural Resources, Oil and Gas Regulatory Authority, Directorates of Petroleum Concessions and Gas, Ministry of Finance, Fauji Foundation and Oil and Gas Development Company Limited.

For and on behalf of the Board

Lt Gen Muhammad Mustafa Khan (Retd)
Chairman

Islamabad
September 27, 2012

Financial Statements of Mari Gas Company Limited

for the year ended June 30, 2012

Statement of Compliance
with the Code of Corporate Governance

The statement is being presented to comply with the Code of Corporate Governance (CCG) contained in regulation No 35 of Chapter XI of Listing Regulations of Karachi, Lahore and Islamabad stock exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance. The Company has applied the principles contained in the CCG 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 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 as a director 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. Two casual vacancies occurred in the Board on August 16, 2011 and January 09, 2012 and were filled up on the same dates.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been disseminated through out the Company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board/shareholders.

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 Company arranged oil and gas training programs for its directors during the year 2012.

10. The appointments of Chief Financial Officer (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. No new appointments of the CFO, Company Secretary and Head of Internal Audit were made during the year.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. 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.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee. It comprises of four members and all of them are non-executive directors including a director representing minority share holding.

16. 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 CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of four members and all of them are non-executive directors and the president of the committee is a director representing minority share holder.

18. The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan that they or any of the partner of the firm, 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.

20. 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.

21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Company securities, was determined and intimated to directors, employees and stock exchanges.

22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

For and on behalf of the Board

Lt Gen Muhammad Mustafa Khan (Retd)
Chairman

Islamabad
September 27, 2012

Review Report to the Members
on Statement of Compliance with the Code of Corporate Governance

We have reviewed the Statement of Compliance with the Code of Corporate Governance for the year ended June 30, 2012 prepared by the Board of Directors of Mari Gas Company Limited to comply with the Listing Regulations of the respective Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance (the Code) 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 and report if it does not. A review is limited primarily to inquiries of the Company 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Code requires the company to place before the audit committee, and upon recommendation of the audit committee, before the board of directors for their review and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors upon recommendation of the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 Code of Corporate Governance as applicable to the Company for the year ended June 30, 2012.

CHARTERED ACCOUNTANTS
Engagement Partner
Sohail M. Khan

Islamabad
September 27, 2012

Auditors' Report to the Members

We have audited the annexed balance sheet of Mari Gas Company Limited as at June 30, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the 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 a 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 account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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, 2012 and of the profit, total comprehensive income, 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.

The financial statements of Mari Gas Company Limited for the year ended June 30, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on September 26, 2011.

CHARTERED ACCOUNTANTS
Engagement Partner
Sohail M. Khan

Islamabad
September 27, 2012

Balance Sheet
as at June 30, 2012

	Note	2012	(Restated) 2011	(Restated) 2010
			(Rupees in thousand)	
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Authorized capital				
250,000,000 ordinary shares of Rs 10 each	4	2,500,000	2,500,000	2,500,000
Issued, subscribed and paid up capital	4	918,750	735,000	735,000
Undistributed percentage return reserve	5	420,048	490,220	364,205
Exploration and evaluation reserve	6	4,150,409	4,057,194	2,800,268
Profit and loss account	7	5,986,939	5,388,001	5,291,353
		11,476,146	10,670,415	9,190,826
NON CURRENT LIABILITIES				
Long term financing - secured	8	946,667	1,300,000	1,720,000
Deferred liabilities	9	4,415,608	3,666,342	2,585,710
Deferred income tax liability		-	-	165,321
		5,362,275	4,966,342	4,471,031
CURRENT LIABILITIES				
Trade and other payables	10	15,950,674	9,091,816	7,501,647
Current maturity of long term financing	8	442,222	420,000	380,000
Interest accrued on long term financing		56,273	78,217	87,752
Provision for income tax	11	-	183,849	48,844
		16,449,169	9,773,882	8,018,243
CONTINGENCIES AND COMMITMENTS	12			
		33,287,590	25,410,639	21,680,100

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

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

	Note	2012	(Restated) 2011	(Restated) 2010
			(Rupees in thousand)	
ASSETS				
NON CURRENT ASSETS				
Property, plant and equipment	13	4,472,186	4,787,239	4,540,056
Development and production assets	14	3,424,616	3,392,447	3,075,836
Exploration and evaluation assets	15	4,150,409	4,057,194	2,800,268
		12,047,211	12,236,880	10,416,160
Long term loans and advances	16	6,894	2,341	2,850
Long term deposits and prepayments	17	9,747	11,015	10,878
Deferred income tax asset	18	490,528	120,726	-
		12,554,380	12,370,962	10,429,888
CURRENT ASSETS				
Stores and spares	19	806,905	484,906	290,262
Trade debts	20	15,151,485	7,706,622	6,099,654
Loans and advances	21	1,049,463	939,599	1,176,947
Short term prepayments	22	28,844	48,474	27,450
Interest accrued		17,216	6,581	44,634
Other receivables	23	534,265	73,508	3,960
Income tax paid in advance	11	194,216	-	-
Cash and bank balances	24	2,950,816	3,779,987	3,607,305
		20,733,210	13,039,677	11,250,212
		33,287,590	25,410,639	21,680,100

Qaiser Javed
Director

Profit and Loss Account

for the year ended June 30, 2012

	Note	2012	(Restated) 2011
		(Rupees in thousand)	
Gross sales to customers	25	47,425,041	31,402,132
Gas development surcharge		22,940,839	17,719,495
General sales tax		6,358,537	4,440,084
Excise duty		1,474,944	1,361,913
Gas infrastructure development cess		7,937,394	-
Wind fall / petroleum levy		335,497	266,165
Surplus payable to the President of Pakistan as per the Agreement	21	821,915	486,205
		39,869,126	24,273,862
Sales - net		7,555,915	7,128,270
Royalty		968,604	887,402
		6,587,311	6,240,868
Operating expenses	26	3,455,644	2,996,889
Exploration and prospecting expenditure	27	1,639,378	378,828
Other operating income	28	356,363	129,467
Other charges	29	122,856	216,186
Operating profit		1,725,796	2,778,432
Finance income	30	446,931	646,219
Finance cost	31	770,232	715,756
Profit before taxation		1,402,495	2,708,895
Provision for taxation	32	287,329	983,595
Profit for the year		1,115,166	1,725,300
Profit for the year represents the following:			
Distributable profits		454,067	380,325
Exploration and evaluation reserve	6	93,215	1,256,926
Profit and loss account - undistributable balance	7.1	567,884	88,049
		1,115,166	1,725,300
Earnings per share - basic and diluted			
Earnings per share on the basis of distributable profits (Rupees)	33	4.94	4.14
Earnings per share on the basis of profit and loss account (Rupees)	34	12.14	18.78

The annexed notes 1 to 42 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, 2012

	2012	2011
	(Rupees in thousand)	
Profit after taxation	1,115,166	1,725,300
Other comprehensive income	–	–
Total comprehensive income for the year	1,115,166	1,725,300

The annexed notes 1 to 42 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, 2012

	Note	2012	(Restated) 2011
		(Rupees in thousand)	
Cash flows from operating activities			
Profit before taxation		1,402,495	2,708,895
Adjustments for:			
Depreciation of property, plant and equipment		461,738	492,172
Depreciation of exploration and evaluation assets		143,429	-
Amortization of development and production assets		144,969	323,827
Loss / (gain) on disposal of property, plant and equipment		76	(7,003)
Employee benefits - unfunded		25,218	16,209
Finance income		(436,861)	(462,041)
Finance cost		770,232	715,756
		2,511,296	3,787,815
Working capital changes			
(Increase) / decrease in current assets			
Stores and spares		(321,999)	(194,644)
Trade debts		(7,444,863)	(1,606,968)
Loans and advances		(109,864)	237,348
Short term prepayments		19,630	(21,024)
Other receivables		(460,757)	(69,548)
Increase in current liabilities			
Trade and other payables		6,839,846	1,531,505
Cash generated from operations		1,033,289	3,664,484
(Increase) / decrease in long term loans and advances		(4,553)	509
(Increase) / decrease in long term deposits and prepayments		1,268	(137)
Employee benefits paid - unfunded		(5,201)	(3,102)
Taxes paid		(1,035,196)	(1,134,637)
Cash flow from operating activities		(10,393)	2,527,117
Cash flows from investing activities			
Purchase of property, plant and equipment		(130,892)	(710,587)
Development and production assets		(243)	(69,174)
Exploration and evaluation assets		(236,644)	(1,256,926)
Proceeds from disposal of property, plant and equipment		167	8,942
Interest received		426,226	500,094
Cash flow from investing activities		58,614	(1,527,651)
Cash flows from financing activities			
Long term financing received		100,000	-
Long term financing repaid		(431,111)	(380,000)
Finance cost paid		(255,858)	(259,737)
Dividends paid		(290,423)	(187,047)
Cash flow from financing activities		(877,392)	(826,784)
(Decrease) / increase in cash and bank balances		(829,171)	172,682
Cash and bank balances at beginning of year		3,779,987	3,607,305
Cash and bank balances at end of year	24	2,950,816	3,779,987

The annexed notes 1 to 42 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, 2012

	Issued, subscribed and paid up capital	Undistributed percentage return reserve	Exploration and evaluation reserve	Profit and loss account	Total
			(Rupees in thousand)		
Balance as at July 01, 2010	735,000	364,205	2,800,268	5,291,353	9,190,826
Total comprehensive income for the year:					
Profit for the year	-	-	-	1,725,300	1,725,300
Other comprehensive income	-	-	-	-	-
	-	-	-	1,725,300	1,725,300
Interim cash dividend for the year ended June 30, 2011 @ Rs 2.34 per share	-	-	-	(172,211)	(172,211)
Final cash dividend for the year ended June 30, 2011 @ Rs 1.00 per share	-	-	-	(73,500)	(73,500)
Transfer from profit and loss account to undistributed percentage return reserve	-	126,015	-	(126,015)	-
Transfer from profit and loss account to 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
Total comprehensive income for the year:					
Profit for the year	-	-	-	1,115,166	1,115,166
Other comprehensive income	-	-	-	-	-
	-	-	-	1,115,166	1,115,166
First interim cash dividend for the year ended June 30, 2012 @ Rs 2.37 per share	-	-	-	(217,560)	(217,560)
Second interim cash dividend for the year ended June 30, 2012 @ Rs 1.00 per share	-	-	-	(91,875)	(91,875)
Issuance of bonus shares from undistributed percentage return reserve	183,750	(183,750)	-	-	-
Transfer from profit and loss account to undistributed percentage return reserve	-	113,578	-	(113,578)	-
Transfer from profit and loss account to exploration and evaluation reserve	-	-	93,215	(93,215)	-
Balance as at June 30, 2012	918,750	420,048	4,150,409	5,986,939	11,476,146

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

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

Qaiser Javed
Director

1. LEGAL STATUS AND OPERATIONS

1.1 Mari Gas Company Limited ("the Company") is a public limited company incorporated in Pakistan on December 4, 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 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.

1.2 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 maintaining specified ratios and deductibles. The return to shareholders is to be escalated in the event of increase in the Company's gas production beyond the level of 425 MMSCFD at the rate of 1%, net of all taxes, on Shareholders' Funds for each additional 20 MMSCFD of gas or equivalent oil produced, prorated for part thereof on annual basis, subject to a maximum of 45%. The minimum return to shareholders for the year was 37.06% (2011: 34.60%).

Effective July 01, 2001, the Government of Pakistan (GoP) has authorized the Company to incur expenditure not exceeding Rupee equivalent of US$ 20,000,000 per annum or 30% of the Company's annual gross sales revenue as disclosed in the last audited financial statements, whichever is less, in connection with exploration and development in any concession area other than Mari Field, provided that if such exploration and development results in additional gas or equivalent oil production, the revenues generated from such additional gas or equivalent oil production shall be credited to and treated as revenue under the Agreement. During the year, the Economic Coordination Committee of the cabinet has given its approval for enhancing the limit of US$ 20,000,000 per annum by US$ 5,000,000 each year upto US$ 40,000,000 per annum over a period of four years effective January 1, 2012.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Adoption of new and revised standards and interpretations

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

		Effective date (annual reporting periods beginning on or after)
IFRS 7	Financial instruments: Disclosures (Amendments)	January 1, 2013
IAS 1	Presentation of financial statements (Amendments)	July 1, 2012 & January 1, 2013
IAS 12	Income Taxes (Amendments)	January 1, 2013
IAS 16	Property, Plant and Equipment (Amendments)	January 1, 2013
IAS 19	Employee benefits (Amendments)	January 1, 2013

		Effective date (annual reporting periods beginning on or after)
IAS 27	Separate Financial Statements (Revised)	January 1, 2013
IAS 28	Investments in Associates and Joint Venture (Revised)	January 1, 2013
IAS 32	Financial instruments: Presentation (Amendments)	January 1, 2013 & 2014
IAS 34	Interim Financial Reporting (Amendments)	January 1, 2013
IFRIC 20	Stripping costs in the production phase of a surface mine	January 1, 2013

The management anticipates that, except for the effects on the financial statements of amendments to IAS-19 "Employees Benefits", the adoption of the above standards, amendments and interpretations in future periods will have no material impact on the financial statements other than in presentation / disclosures. The application of the amendments to IAS-19 would result in the recognition of cumulative unrecognized actuarial gains / losses in other comprehensive income in the period of initial application, which cannot be presently quantified on the date of the Balance Sheet.

Further, the following new standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan:

		Effective date (annual reporting periods beginning on or after)
IFRS 1	First-time adoption of International Financial Reporting standards	July 1, 2009
IFRS 9	Financial instruments	January 1, 2013
IFRS 10	Consolidated financial statements	January 1, 2013
IFRS 11	Joint arrangements	January 1, 2013
IFRS 12	Disclosure of interests in other entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013

2.3 Critical accounting estimates and judgements

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

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

Judgements made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment within the next financial 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.

f) Exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment on periodic basis and carrying amount in excess of recoverable amount is charged to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented in these financial statements.

3.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except provision for decommissioning cost that has been measured at present value and the obligation under certain employee benefits that is carried at present value of defined benefit obligations net of fair value of plan assets and unrecognized actuarial gain / loss.

3.2 Functional and presentation currency

These financial statements are presented in Pak Rupees (Rupees) which is the functional currency of the Company. All figures are rounded off to the nearest thousands of Rupees.

3.3 Taxation

Current

Provision for current taxation is based on taxable income at the applicable tax rates after taking into account tax credits and tax rebates, if any.

Deferred

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 and royalty.

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 Provision for decommissioning cost

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

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

3.6 Employee benefits

The Company operates:

i) Defined benefit funded 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 as required by IAS 19 - Employee Benefits and the latest valuation was carried out as at June 30, 2012. 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, 2012 using discount rate of 13.50% per annum and salary increase rate of 13.50% 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, 2012 using discount rate of 13.50% per annum and pension increase rate of 8.50% 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, 2012 using discount rate of 13.50% per annum and an increase in cost of medical benefits of 9.25% 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, 2012 using discount rate of 13.50% per annum and salary increase rate of 13.50% per annum.

vi) The Company has the policy to provide for compensated absences of its employees in accordance with respective entitlement on cessation of service; related expected cost thereof has been included in the financial statements.

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 13 to these financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives.

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 centres 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 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. 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.

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 Rupees 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 Rupees 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. Revenue from rig rental is recognised on rendering of services to customers.

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. The Company suspends capitalization of borrowing costs during extended period when active development of a qualifying asset is suspended. 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 financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortized cost respectively. The Company derecognises the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. The Company recognises the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade and other payables

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

b) Trade debts and other receivables

Trade debts and other receivables are recognised and carried at their amortized cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

c) Off-setting of financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.16 Cash and bank balances

Cash and bank balances 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.

3.17 Dividend distribution

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

3.18 Research and development costs

Research and development costs are charged to income as and when incurred.

3.19 Operating leases

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

3.20 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The management has determined that the Company has a single reportable segment as the Board of Directors views the Company's operations as one reportable segment.

		Note	2012	2011
			(Rupees in thousand)	
4.	SHARE CAPITAL			
	Authorized capital			
	250,000,000 (2011: 250,000,000) ordinary shares of Rs 10 each		2,500,000	2,500,000
	Issued, subscribed and paid up capital			
	24,850,007 (2011: 24,850,007) ordinary shares of Rs 10 each issued for cash		248,500	248,500
	11,899,993 (2011: 11,899,993) ordinary shares of Rs 10 each issued for consideration other than cash	4.1	119,000	119,000
	55,125,000 (2011: 36,750,000) ordinary shares of Rs 10 each issued as bonus shares		551,250	367,500
			918,750	735,000

	Note	2012 (Percentage)	2011 (Percentage)
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	4.2	18.20	18.20

4.1 This represents shares allotted to the Government of Pakistan and Fauji Foundation in consideration for transfer of assets and liabilities of Pak Stanvec Petroleum Project.

4.2 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.

4.3 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 for 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 for 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.

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 February 2, 2011 has granted exemption to such entities from the application of IFRS 2 to the Scheme vide SRO 587 (I)/2011 dated June 7, 2011.

Had the exemption not been granted, the staff costs of the Company for the year would have been higher by Rs 43.335 million, profit after taxation would have been lower by Rs 21.668 million, earnings per share would have been lower by Rs 0.24 per share and reserves would have been higher by Rs 39.400 million.

However, since the Company is operating under cost plus formula as explained in note 1.2 above, any variance on account of above does not effect the profitability of the Company and the guaranteed rate of return to the shareholders.

		2012	2011
		(Rupees in thousand)	
5.	**UNDISTRIBUTED PERCENTAGE RETURN RESERVE**		
	Undistributed percentage return reserve	490,220	364,205
	Transferred from profit and loss account	113,578	126,015
	Bonus shares issued	(183,750)	-
		420,048	490,220

5.1 The Board of Directors in its meeting held on September 26, 2011 proposed the issuance of 25% bonus shares. The bonus shares were subsequently issued after approval of shareholders in the Annual General Meeting held on October 26, 2011.

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

		2012	2011
		(Rupees in thousand)	
6.	**EXPLORATION AND EVALUATION RESERVE**		
	Balance at the beginning of year	4,057,194	2,800,268
	Additions during the year	1,489,022	1,256,926
	Cost of dry and abandoned wells written off	(313,483)	-
	Impairment of well cost	(938,895)	-
	Depreciation for the year	(143,429)	-
		93,215	1,256,926
	Balance at the end of year	4,150,409	4,057,194

6.1 This reserve consists of exploration and evaluation expenditure net of cost of dry and abandoned wells written off, depreciation and impairment. The corresponding effect of the reserve has been incorporated as exploration and evaluation assets.

7. PROFIT AND LOSS ACCOUNT

The amount of Rs 5,986.939 million (2011: Rs 5,388.001 million) represents the following:

7.1 Undistributable balance

The amount of Rs 5,922.076 million (2011: Rs 5,354.192 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, 2011	Generated during the year ended June 30, 2012	Generated upto June 30, 2012
			(Rupees in thousand)	
a)	Rupee element of capital expenditure (net of depreciation/ amortization) and repayment of borrowings	5,089,421	567,884	5,657,305
b)	Maintenance of debt service ratio	90,234	-	90,234
c)	Maintenance of current ratio	174,537	-	174,537
	Total	5,354,192	567,884	5,922,076
	Year ended June 30, 2011	5,266,143	88,049	5,354,192

		2012	2011
		(Rupees in thousand)	
7.2	**Distributable balance**		
	Undistributed guaranteed return	64,863	33,809

This represents the additional 7.06% (2011: 4.60%) guaranteed return to shareholders on account of increase in hydrocarbons production during the year in accordance with the Agreement as referred to in note 1.2 to these financial statements.

		Note	2012	2011
			(Rupees in thousand)	
8.	LONG TERM FINANCING – SECURED			
	Loan for Mari field development	8.1		
	Opening balance		1,520,000	1,900,000
	Amount repaid during the year		(380,000)	(380,000)
			1,140,000	1,520,000
	Amount payable within next twelve months shown as current maturity of long term financing		(380,000)	(380,000)
			760,000	1,140,000
	Loan for Zarghun field development	8.2		
	Opening balance		200,000	200,000
	Amount received during the year		100,000	-
	Amount repaid during the year		(51,111)	-
			248,889	200,000
	Amount payable within next twelve months shown as current maturity of long term financing		(62,222)	(40,000)
			186,667	160,000
			946,667	1,300,000

8.1 The Company arranged a Syndicated Term Finance Loan amounting to Rs 1,900 million 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 was revised downward to six months KIBOR + 1.35% per annum effective from September 15, 2010. The effective mark-up rate for the year ended June 30, 2012 was 14.60% per annum (2011: 14.39% per annum). The loan is repayable in ten equal semi-annual installments after a grace period of 24 months from the date of first disbursement. Four installments amounting to Rs 760 million have been paid upto June 30, 2012 (2011: Rs 380 million). Loan is secured by a first pari passu charge by way of hypothecation over all present and future fixed and current assets and businesses, and first pari passu equitable mortgage over Company's all existing or future immovable property.

8.2 In order to finance Zarghun Gas Field, the Company arranged another Term Finance Loan of Rs 1,112 million from Habib Bank Limited. Out of loan amount, a sum of Rs 300 million has been disbursed upto June 30, 2012. 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 for the year ended June 30, 2012 was 14.16% per annum (2011: 14.45% per annum). The loan is repayable in ten equal semi-annual installments after a grace period of 24 months from date of first disbursement. Two installments amounting to Rs 51 million have been paid upto June 30, 2012 (2011: Nil). The availability period for draw down has been extended till September 30, 2012. Loan is secured by a first pari passu charge over present and future assets of the Company by way of hypothecation, equitable mortgage and floating charge of an amount of Rs 2.12 billion.

	Note	2012	2011
		(Rupees in thousand)	
9. DEFERRED LIABILITIES			
Provision for decommissioning cost	9.1	4,257,659	3,528,410
Provision for employee benefits - unfunded	9.2	105,946	88,791
Provision for compensated leave absences		52,003	49,141
		4,415,608	3,666,342
9.1 Provision for decommissioning cost			
Balance at beginning of the year		3,528,410	2,460,885
Provision made during the year		192,931	601,971
		3,721,341	3,062,856
			–
Unwinding of discount		536,318	465,554
Balance at end of the year		4,257,659	3,528,410
The above provision is analyzed as follows:			
Wells		4,001,759	3,320,195
Gathering lines		255,900	208,215
		4,257,659	3,528,410

It is expected that cash out flows resulting from decommissioning will occur between 2013 to 2050.

	2012	2011
	(Per annum)	
Significant assumptions used in computation of the provision are as follows:		
Discount rate	13.50%	15.20%
Inflation rate	13.50%	14.00%

	Note	2012	2011
		(Rupees in thousand)	
9.2 Provision for employee benefits - unfunded			
Post retirement medical benefits for management employees	35.2	23,912	20,435
Post retirement leave benefits for management employees	35.2	57,992	47,700
Pension plan for non-management employees	35.2	24,042	20,656
		105,946	88,791

		Note	2012	2011
			(Rupees in thousand)	
10.	**TRADE AND OTHER PAYABLES**			
	Creditors		408,357	349,905
	Accrued liabilities		333,539	203,817
	Retention and earnest money deposits		15,638	14,869
	Gratuity funds		137,498	211,967
	Unclaimed dividend		6,640	5,773
	Unpaid dividend		92,714	74,569
	Gas development surcharge		11,398,283	6,803,817
	General sales tax		654,887	394,542
	Excise duty		123,956	118,477
	Gas infrastructure development cess		1,306,728	-
	Workers' Welfare Fund		457,732	411,143
	Workers' Profit Participation Fund	10.1	141,957	198,006
	Joint venture partners		353,840	209,109
	Royalty		110,512	95,822
	Deferred interest income	10.2	408,393	-
			15,950,674	9,091,816

		2012	2011
10.1	**Workers' Profit Participation Fund**		
	Balance at beginning of the year	198,006	124,196
	Allocation for the year	76,267	146,255
	Interest on delayed payments @ 25.95% (2011 : 25.07%) per annum	11,100	5,921
		87,367	152,176
		285,373	276,372
	Amount paid to the Fund	(143,416)	(78,366)
	Balance at end of the year	141,957	198,006

10.2 The Company has deferred recognition of interest income of Rs 420.896 million on amounts due from Foundation Power Company Daharki Limited and has also deferred recognition of interest expense of Rs 12.503 million payable to the Government of Pakistan (GoP) on account of late payment of Gas Development Surcharge till the resolution of circular debt issue in the oil and gas industry.

		2012	2011
		(Rupees in thousand)	
11.	**INCOME TAX PAYABLE / (RECEIVABLE)**		
	Balance at beginning of the year	183,849	48,844
	Provision for the year	657,131	1,269,642
	Income tax paid during the year	(1,035,196)	(1,134,637)
	Balance at end of the year	(194,216)	183,849

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

(i) Due to circular debt in the oil and gas industry and instructions of the Government of Pakistan (GoP), the Company has not recognized interest income of Rs 4,121.829 million (2011: Rs 2,908.283 million) on amounts due from Pakistan Electric Power Company (PEPCO) and has also not made any provision in these financial statements for interest expense of Rs 2005.041 million (2011: Rs 1,344.872 million) payable to the Government of Pakistan (GoP) on account of late payment of Gas Development Surcharge. However, such non - recognition does not affect the current year or future years' profit after taxation which includes the guaranteed return to shareholders under the Agreement.

(ii) Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials amounted to Rs 5.225 million (2011: Rs 14.192 million).

	2012	2011
	(Rupees in thousand)	
12.2 Commitments		
(i) Capital expenditure:		
- Share in joint ventures	3,561,471	434,626
- Mari field	1,016,380	328,382
	4,577,851	763,008
(ii) Operating lease rentals due:		
- Less than one year	27,289	13,514
- More than one year but less than five years	59,154	22,413
	86,443	35,927

13. 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 13.1)	Total
	(Rupees in thousand)														
As at July 01, 2010															
Cost	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
Accumulated depreciation	-	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
Net book value	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
Year ended June 30, 2011															
Opening net book value	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
Additions	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															
Cost	-	-	(141)	-	-	-	(8,809)	(1,330)	-	(1,174)	(4,504)	(7,581)	-	-	(23,539)
Accumulated depreciation	-	-	132	-	-	-	8,213	1,295	-	1,161	4,504	6,295	-	-	21,600
	-	-	(9)	-	-	-	(596)	(35)	-	(13)	-	(1,286)	-	-	(1,939)
Transfers	(904)	904	(15,928)	15,928	-	(326)	326	-	-	-	(48,563)	48,563	-	(288,412)	(288,412)
Depreciation charge	-	(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)
Closing net book value	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
As at July 01, 2011															
Cost	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
Accumulated depreciation	-	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
Net book value	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
Year ended June 30, 2012															
Opening net book value	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
Additions	(77,103)	-	103,048	43,310	9,029	24,876	386,090	10,420	66,043	20,756	5,506	45,724	16,036	321,668	975,403
Disposals															
Cost	-	-	-	-	-	-	(1,161)	(2,394)	-	(651)	-	-	-	-	(4,206)
Accumulated depreciation	-	-	-	-	-	-	1,005	2,394	-	564	-	-	-	-	3,963
	-	-	-	-	-	-	(156)	-	-	(87)	-	-	-	-	(243)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	(828,475)	(828,475)
Depreciation charge	-	(982)	(27,672)	(3,569)	(7,013)	(116,412)	(72,128)	(10,104)	(144,823)	(3,357)	(48,711)	(21,308)	(5,659)	-	(461,738)
Net book value	672,819	43,371	378,414	66,058	23,049	529,750	726,460	19,942	900,578	30,087	43,939	66,219	122,730	848,770	4,472,186
As at June 30, 2012															
Cost	672,819	52,266	641,850	106,918	111,540	1,177,378	1,169,157	98,379	1,893,171	69,758	323,181	241,225	153,639	848,770	7,560,051
Accumulated depreciation	-	8,895	263,436	40,860	88,491	647,628	442,697	78,437	992,593	39,671	279,242	175,006	30,909	-	3,087,865
Net book value	672,819	43,371	378,414	66,058	23,049	529,750	726,460	19,942	900,578	30,087	43,939	66,219	122,730	848,770	4,472,186
Annual rates of depreciation (%)	-	1-3	5	5	10	10-33.33	10	25	10	10	30	20	Note 3.5		

		2012	2011
		(Rupees in thousand)	
13.1	CAPITAL WORKS IN PROGRESS		
	MARI FIELD		
	5 Infill wells		
	Land	6,008	-
	Materials and equipment	282,800	-
		288,808	-
	Head office building		
	Buildings, roads and bridges	22,979	-
	Materials and equipment	35,413	-
		58,392	-
	3 Up front wells and production facilities		
	Land	15,636	15,636
	Buildings, roads and bridges	2,733	6,734
	Materials and equipment	106,261	399,235
		124,630	421,605
	Others	2,900	6,638
		474,730	428,243
	JOINT VENTURES - OTHER THAN MARI FIELD	-	285,401
	SUPPORT OF PRODUCTION		
	Land, buildings, roads and bridges	203,050	184,159
	Plant, machinery and others	170,990	457,774
		374,040	641,933
		848,770	1,355,577

13.2 Detail of property, plant and equipment disposed off during the year are as follows:

DESCRIPTION	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	(Rupees in thousand)					
Plant and equipment	961	805	156	45	Company policy	various employees
Plant and equipment	192	192	-	30	Through auction	M/s Vital engineering
Plant and equipment	8	8	-	2	Through auction	M/s Jan Muhammad
Furniture & fixture	448	375	73	27	Company policy	various employees
Furniture & fixture	172	165	7	-	Donated	Educational health centre Quetta
Furniture & fixture	31	24	7	8	Through auction	M/s Jan Muhammad
Computers	1,402	1,402	-	-	Donated	Computer literacy centre Swat
Computers	720	720	-	51	Company policy	Various employees
Computers	272	272	-	4	Through auction	M/s Jan Muhammad
4,206		3,963	243	167		

14. DEVELOPMENT AND PRODUCTION ASSETS

Description	Producing fields Wholly owned	Shut–in–fields Joint ventures	Sub total	Decommissioning Cost	Total
	(Rupees in thousand)				
As at July 1, 2010					
Cost	4,016,510	193,473	4,209,983	1,611,562	5,821,545
Accumulated depreciation	(2,424,795)	-	(2,424,795)	(320,914)	(2,745,709)
Net book value	1,591,715	193,473	1,785,188	1,290,648	3,075,836
Year ended June 30, 2011					
Opening net book value	1,591,715	193,473	1,785,188	1,290,648	3,075,836
Additions	-	69,174	69,174	571,264	640,438
Amortization	(256,722)	-	(256,722)	(67,105)	(323,827)
Closing net book value	1,334,993	262,647	1,597,640	1,794,807	3,392,447
As at July 1, 2011					
Cost	4,016,510	262,647	4,279,157	2,182,826	6,461,983
Accumulated amortization	(2,681,517)	-	(2,681,517)	(388,019)	(3,069,536)
Net book value	1,334,993	262,647	1,597,640	1,794,807	3,392,447
Year ended June 30, 2012					
Opening net book value	1,334,993	262,647	1,597,640	1,794,807	3,392,447
Additions	-	243	243	176,895	177,138
Amortization	(64,232)	-	(64,232)	(80,737)	(144,969)
Net book value	1,270,761	262,890	1,533,651	1,890,965	3,424,616
As at June 30, 2012					
Cost	4,016,510	262,890	4,279,400	2,359,721	6,639,121
Accumulated amortization	(2,745,749)	-	(2,745,749)	(468,756)	(3,214,505)
Net book value	1,270,761	262,890	1,533,651	1,890,965	3,424,616

14.1 With effect from July 1, 2011, the Company changed the amortisation of drilling expenditure from straight line method to unit of production method to align it with the industry practice. Had there been no change in amortization method, the amortization charge for the year would have been higher by Rs 146 million.

		2012	2011
		(Rupees in thousand)	
15.	**EXPLORATION AND EVALUATION ASSETS**		
	Balance at the beginning of year	4,057,194	2,800,268
	Additions during the year	1,489,022	1,256,926
	Cost of dry and abandoned wells written off	(313,483)	-
	Impairment of well cost	(938,895)	-
	Depreciation for the year	(143,429)	-
		93,215	1,256,926
	Balance at the end of year	4,150,409	4,057,194

15.1 Exploration and evaluation assets include net book value of tangible assets amounting to Rs 501.680 million (2011: Rs 644.839 million).

		2012	2011
		(Rupees in thousand)	
15.2	**Break up of exploration and evaluation assets**		
	Share in joint ventures operated by the Company		
	Karak	1,200,643	698,609
	Ziarat	1,139,678	1,382,171
	Sujawal	461,502	455,872
	Sukkur	395,678	373,852
		3,197,501	2,910,504
	Share in joint ventures operated by others		
	Hala	940,888	802,450
	Kohat	11,474	344,240
	Oman	546	-
		952,908	1,146,690
		4,150,409	4,057,194

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

	Note	2012	2011
		(Rupees in thousand)	
Current liabilities related to exploration and evaluation		588,144	503,342
Current assets related to exploration and evaluation		885,968	767,356
Exploration and prospecting expenditure	27	1,639,378	378,828

		Note	2012	2011
			(Rupees in thousand)	
16.	**LONG TERM LOANS AND ADVANCES**			
	Considered good - secured			
	- Executives	16.1	7,263	4,978
	- Other employees	16.1	8,483	4,949
			15,746	9,927
	Less: amount due within twelve months shown under current loans and advances	21		
	- Executives		5,585	4,573
	- Other employees		3,267	3,013
			8,852	7,586
			6,894	2,341

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

	Balance as at July 01, 2011	Disbursements during the year	Repayments during the year	Balance as at June 30, 2012
	(Rupees in thousand)			
Executives	4,978	13,863	11,578	7,263
Other employees	4,949	8,425	4,891	8,483
Total	9,927	22,288	16,469	15,746
Year ended June 30, 2011	11,101	16,306	17,480	9,927

16.2 The maximum amount due from executives at the end of any month during the year was Rs 8.412 million (2011: Rs 5.626 million).

16.3 Loans and advances to employees are for general purpose and for house rent advance which are recoverable in 30 to 60 equal monthly instalments respectively and are secured by an amount due to the employee against provident fund. These loans and advances are interest free. These do not include any amount receivable from the Chief Executive and Directors.

		2012	2011
		(Rupees in thousand)	
17.	**LONG TERM DEPOSITS AND PREPAYMENTS**		
	Deposits	9,545	10,724
	Prepayments	202	291
		9,747	11,015
18.	**DEFERRED INCOME TAX ASSET**		
	The balance of deferred tax is in respect of following temporary differences:		
	Exploration expenditure charged to profit and loss account but to be claimed in tax return in future years	1,420,700	956,636
	Accelerated tax depreciation	(967,253)	(866,987)
	Provision for employee benefits - unfunded	37,081	31,077
		490,528	120,726

		Note	2012	2011
			(Rupees in thousand)	
19.	STORES AND SPARES			
	Stores	19.1	651,736	371,586
	Spares		155,169	113,320
			806,905	484,906
19.1	Stores and spares include:			
	Share in joint ventures operated by the Company		46,285	57,280
	Share in joint ventures operated by others (assets not in possession of the Company)		5,807	10,980
			52,092	68,260
20.	TRADE DEBTS			
	Due from related parties - considered good			
	Pakistan Electric Power Company		7,815,079	4,379,263
	Foundation Power Company Daharki Limited		4,560,818	1,504,323
	Fauji Fertilizer Company Limited		1,141,376	503,172
	Sui Southern Gas Company Limited		35,666	79,872
	Sui Northern Gas Pipelines Limited		105,401	5,691
	Foundation Gas		19,377	77,105
			13,677,717	6,549,426
	Due from others - considered good			
	Engro Fertilizer Limited		410,636	206,328
	Fatima Fertilizer Company Limited		184,731	149,746
	Byco Petroleum Pakistan Limited		614,192	634,192
	National Refinery Limited		112,339	166,457
	Attock Refinery Limited		151,870	473
			15,151,485	7,706,622

Trade debts include overdue amounts of Rs 11,438.492 million (June 30, 2011: Rs 5,475.170 million). Based on the measures undertaken by the Government of Pakistan (GoP) to resolve the Inter-Corporate Circular Debt issue, the Company considers the above amounts to be fully recoverable.

		Note	2012	2011
			(Rupees in thousand)	
21.	LOANS AND ADVANCES			
	Considered good			
	Current portion of long term loans and advances	16		
	- Executives		5,585	4,573
	- Other employees		3,267	3,013
			8,852	7,586
	Advances to employees against expenses		15,124	7,977
	Advances to suppliers and others		172,249	43,760
	Advances to joint venture partners		173,674	183,587
	Receivable under Mari Gas Well Head Price Agreement	21.1	679,564	696,689
			1,049,463	939,599

		Note	2012
			(Rupees in thousand)
21.1	**Receivable under Mari Gas Well Head Price Agreement**		
	Payable as at June 30, 2011, as previously reported		(804,789)
	Receivable on account of deferred tax adjustment / restatement of prior years' financial statements	40	1,501,479
	Receivable as at June 30, 2011, as restated		696,690
	Amount paid during the year		804,789
	Surplus for the current year as per profit and loss account		(821,915)
	Receivable as at June 30, 2012		679,564

The amount of surplus as previously reported amounted to Rs 804.789 million, which was subsequently paid after approval of financial statements for the year ended June 30, 2011 vide letter No OGRA-10-4(4)/2010 dated September 19, 2011. However, due to restatement of financial statements for the year ended June 30, 2011 and prior years on account of reversal of deferred tax, the surplus was restated as deficit amounting to Rs 696.689 million. The restatement does not affect the current year or prior years' profit (including the guaranteed return to the shareholders under the agreement) and equity.

		Note	2012	2011
			(Rupees in thousand)	
22.	SHORT TERM PREPAYMENTS			
	Prepaid insurance		23,979	3,559
	Mining lease		3,631	3,631
	LC margin		-	36,608
	Others		1,234	4,676
			28,844	48,474
23.	OTHER RECEIVABLES			
	Due from related parties			
	Rig rentals - Sukkur joint venture		69,801	-
	Rig rentals - Pakistan Petroleum Limited		-	69,069
	Interest on delayed payments - Foundation Power Company Daharki Limited		420,896	-
	Rental income from line heaters - Foundation Power Company Daharki Limited		33,912	-
	Due from others		9,656	4,439
			534,265	73,508
24.	CASH AND BANK BALANCES			
	Cash in hand		542	459
	Balances with banks on:			
	Deposit accounts	24.1	2,948,979	3,772,463
	Current accounts		1,295	7,065
			2,950,274	3,779,528
			2,950,816	3,779,987

24.1 These include foreign currency accounts amounting to US$ 4.308 million (2011: US$ 2.215 million) having mark-up rate ranging from 1% to 1.65% (2011: 1% to 1.65%) per annum. The mark-up rate for local currency accounts ranges from 5% to 13% (2011: 5% to 13%) per annum.

24.2 Local currency deposit accounts include Rs 10.615 million (2011: Rs Nil) under lien against a bank guarantee issued on behalf of the Company.

	Note	2012	2011
		(Rupees in thousand)	
25. GROSS SALES TO CUSTOMERS			
Sale of:			
Gas	25.1	46,030,251	30,039,843
Crude Oil	25.2	665,250	-
Less: Transportation charges		16,365	-
		648,885	-
Condensate	25.3	547,077	957,820
Less: Transportation charges		9,635	13,134
		537,442	944,686
LPG	25.4	191,839	406,961
Own Consumption		16,624	10,642
		47,425,041	31,402,132

25.1 **This represents sale of gas as per detail below:**

	2012	2011
Mari Field	45,718,269	29,515,978
Hala block	176,045	470,551
Sukkur block	120,122	3,079
Kohat block	15,815	50,235
	46,030,251	30,039,843

25.2 **This represent sale of Crude oil as per detail below:**

	2012	2011
Karak block	662,232	-
Ziarat block	3,018	-
	665,250	-

25.3 **This represents sale of condensate as per detail below:**

	2012	2011
Mari Field	280,009	21,708
Hala block	264,625	916,894
Kohat block	2,443	9,967
Sujawal block	-	9,251
	547,077	957,820

25.4 This represents sale of LPG from Hala block.

		Note	2012	2011
			(Rupees in thousand)	
26.	OPERATING EXPENSES			
	Salaries, wages and benefits	26.1	1,154,027	876,534
	Employee benefits	26.2	151,412	129,944
	Rent, rates and taxes		8,768	7,005
	Legal and professional services		4,301	5,620
	Fuel, light, power and water		84,881	81,650
	Maintenance and repairs	26.3	204,291	130,463
	Insurance		43,455	39,202
	Depreciation on property plant and equipment		461,738	492,172
	Depreciation on exploration and evaluation assets		143,429	-
	Amortization		144,969	323,827
	Employees medical and welfare		126,089	110,535
	Field and other services		372,474	309,850
	Travelling		23,050	12,708
	Communications		11,305	10,632
	Printing and stationery		8,074	8,318
	Office supplies		9,921	6,968
	Technical software		29,077	28,506
	Auditor's remuneration	26.4	3,183	1,663
	Mobile dispensary and social welfare		74,480	93,388
	Training		35,623	58,027
	Advertisement		3,407	617
	Books and periodicals		793	558
	Public relations and social activities		4,349	3,597
	Directors' fee and expenses		8,539	3,679
	Freight and transportation		4,827	1,161
	Subscriptions		6,161	1,423
	Rig		286,691	213,278
	Seismic data reprocessing		26,469	-
	Research and development		36,469	-
	Sukkur block		35,729	2,257
	Hala block		153,697	288,449
	Kohat block		35,891	26,264
	Karak block		59,004	-
	Miscellaneous		5,695	4,579
			3,762,268	3,272,874
	Less: Recoveries from joint ventures	26.5	306,624	275,985
			3,455,644	2,996,889

26.1 These include operating lease rentals amounting to Rs 23.714 million (2011: Rs 20.330 million) in respect of company leased vehicles provided to employees of the Company.

26.2 These include Rs 19.913 million (2011: Rs 17.334 million) on account of provident fund.

		2012	2011
		(Rupees in thousand)	
26.3	These include:		
	Maintenance and repairs - Plant and equipment	74,938	44,353
	- Others	61,949	40,699
		136,887	85,052
	Stores and spares - Plant and equipment	35,836	40,672
	- Others	31,568	4,739
		67,404	45,411
		204,291	130,463
26.4	**Auditor's remuneration**		
	Statutory audit	1,000	1,000
	Review of half yearly accounts, special reports and other certifications	563	563
	Tax services	1,500	-
	Out of pocket expenses	120	100
		3,183	1,663
26.5	**Recoveries from joint ventures**		
	Time write cost	218,138	201,174
	Overheads	78,631	65,877
	Computer and equipment support cost	9,855	8,934
		306,624	275,985

27. EXPLORATION AND PROSPECTING EXPENDITURE

	2012	2011	2012	2011
	Working interest (%)		(Rupees in thousand)	
OPERATED BLOCKS				
Zarghun South Field	35.00	35.00	19,885	14,508
Ziarat Block	60.00	60.00	267,251	44,095
Karak Block	60.00	60.00	55,792	58,978
Hanna Block	100.00	40.00	27,901	8,104
Harnai Block	40.00	40.00	60,329	7,721
Sujawal Block	100.00	100.00	30,665	44,232
Sukkur Block	58.82	58.82	102,281	14,035
Ghauri Block	65.00	100.00	18,524	45,981
			582,628	237,654
NON - OPERATED BLOCKS				
Dhadar Block	29.13	29.13	(1,638)	(463)
Hala Block	35.00	35.00	262,804	21,735
Kohat Block	20.00	20.00	725,346	10,334
Bannu West Block	10.00	10.00	1,101	1,007
Kohlu Block	30.00	30.00	3,815	4,722
Kalchas Block	20.00	20.00	4,889	8,635
Zindan Block	35.00	35.00	37,635	8,292
Oman Block	25.00	25.00	22,798	86,912
			1,056,750	141,174
			1,639,378	378,828

27.1 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.

		2012	2011
		(Rupees in thousand)	
27.2	Exploration and prospecting expenditure comprises of :		
	Cost of dry and abandoned wells written off	313,483	-
	Impairment of well cost	938,895	-
	Prospecting expenditure	387,000	378,828
		1,639,378	378,828
28.	**OTHER OPERATING INCOME**		
	Rig rental income	286,746	85,409
	Line heaters rental income	37,056	28,838
	(Loss)/ gain on sale of property, plant and equipment	(76)	7,003
	Miscellaneous	32,637	8,217
		356,363	129,467
29.	**OTHER CHARGES**		
	Workers' Profits Participation Fund	76,267	146,255
	Workers' Welfare Fund	46,589	69,931
		122,856	216,186
30.	**FINANCE INCOME**		
	Income on bank deposits	436,861	462,041
	Interest income on delayed payment by customers	-	187,287
	Exchange gain / (loss)	10,070	(3,109)
		446,931	646,219
31.	**FINANCE COST**		
	Mark-up on long term financing - secured	222,531	244,029
	Unwinding of discount on provision for decommissioning cost	536,318	465,554
	Interest on Workers' Profit Participation Fund	11,100	5,921
	Bank charges	283	252
		770,232	715,756
32.	**PROVISION FOR TAXATION**		
	Current	657,131	1,269,642
	Deferred	(369,802)	(286,047)
		287,329	983,595

		2012	2011
		Percentage	
32.1	**RECONCILIATION OF EFFECTIVE TAX RATE**		
	Applicable tax rate	50	50
	Tax effect of depletion allowance and royalty payments	(70)	(34)
	Tax effect of amount not deductable for tax purposes	29	9
	Others	11	11
	Effective tax rate	20	36

33. EARNINGS PER SHARE - BASIC AND DILUTED ON THE BASIS OF DISTRIBUTABLE PROFITS

	2012	2011
Profit for the year (Rupees in thousand)	1,115,166	1,725,300
Reserve for exploration and evaluation assets - note 6 (Rupees in thousand)	93,215	1,256,926
Undistributable profit (Rupees in thousand)	567,884	88,049
	661,099	1,344,975
Balance distributable profit after tax (Rupees in thousand)	454,067	380,325
Number of shares outstanding (in thousand)	91,875	91,875
Earnings per share on the basis of distributable profits (in Rupees)	4.94	4.14

There is no dilutive effect on the basic earnings per share of the Company. Number of shares in issue and earnings per share for the year ended June 30, 2011 have been restated taking into effect of bonus shares issued during the year @ 25%.

34. EARNINGS PER SHARE - BASIC AND DILUTED ON THE BASIS OF PROFIT AND LOSS ACCOUNT

	2012	2011
Profit for the year (Rupees in thousand)	1,115,166	1,725,300
Number of shares outstanding (in thousand)	91,875	91,875
Earnings per share on the basis of profit and loss account (in Rupees)	12.14	18.78

There is no dilutive effect on the basic earnings per share of the Company. Number of shares in issue and earnings per share for the year ended June 30, 2011 have been restated taking into effect of bonus shares issued during the year @ 25%.

35. EMPLOYEE BENEFITS

35.1 Funded benefits

The results of the actuarial valuation carried out as at June 30, 2012 and June 30, 2011 are as follows:

	2012			2011		
	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	-	685,566	251,325	-	593,353	186,994
Fair value of plan assets	-	(425,841)	(153,660)	-	(237,114)	(104,716)
Net actuarial (losses) not recognized	-	(146,683)	(73,209)	-	(182,695)	(43,855)
Liability recognized in balance sheet	-	113,042	24,456	-	173,544	38,423
Movement in payable to defined benefit plan						
Balance as at beginning of year	-	173,544	38,423	(36,769)	128,411	27,530
Add: Cost for the year	-	113,042	24,456	224	92,782	20,860
	-	286,586	62,879	(36,545)	221,193	48,390
Less: Contribution to fund during the year	-	(173,544)	(38,423)	36,545	(47,649)	(9,967)
Balance as at end of year	-	113,042	24,456	-	173,544	38,423
Movement in fair value of plan assets						
Balance as at beginning of year	-	237,114	104,716	-	174,798	84,861
Contributions during the year	-	173,544	38,423	-	47,649	9,967
Expected return on plan assets	-	34,860	15,313	-	23,319	11,032
Actuarial gain/(loss) on plan assets	-	2,845	(562)	-	(1,446)	705
Benefits paid	-	(22,522)	(4,230)	-	(7,206)	(1,849)
Balance as at end of year	-	425,841	153,660	-	237,114	104,716
Plan assets comprise of:						
Deposit with banks	-	425,841	153,660	-	237,114	104,716
Cost for the year						
Current service cost	-	47,922	10,390	-	40,222	9,238
Interest cost	-	86,273	27,092	-	62,627	20,193
Expected return on plan assets	-	(34,860)	(15,313)	-	(23,319)	(11,032)
Amortization of actuarial loss	-	13,707	2,287	-	13,252	2,461
Immediate recognition of curtailment gain	-	-	-	224	-	-
Total cost	-	113,042	24,456	224	92,782	20,860
Actual return on plan assets	-	37,705	14,751	-	108,468	30,197

35.2 Un–funded benefits

	2012			2011		
	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	57,992	29,675	18,719	47,700	25,783	14,604
Net actuarial (losses)/gains not recognized	-	(5,763)	5,323	-	(5,348)	6,052
Liability recognized in balance sheet	57,992	23,912	24,042	47,700	20,435	20,656
Movement in payable to defined benefit plan						
Balance at beginning of the year	47,700	20,435	20,656	38,681	20,185	17,330
Add: Cost for the year	13,047	5,923	3,386	9,723	2,648	3,326
	60,747	26,358	24,042	48,404	22,833	20,656
Less: Payments during the year	(2,755)	(2,446)	-	(704)	(2,398)	-
Balance at end of the year	57,992	23,912	24,042	47,700	20,435	20,656
Cost for the year						
Current service cost	2,993	891	1,903	2,545	-	1,810
Interest cost	6,440	3,646	1,866	5,273	2,648	1,770
Immediate recognition of curtailment loss/(gain)	3,614	1,386	(383)	1,905	-	(254)
Total cost	13,047	5,923	3,386	9,723	2,648	3,326

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

	2012	2011
	(Per annum)	
- Discount rate	13.50%	14.50%
- Expected rate of return on plan assets	13.50%	14.50%
- Expected rate of salary increase	13.50%	14.50%
- Expected rate of pension increase	8.50%	9.50%

35.4 **Comparison of present value of defined benefit obligation, fair value of plan assets and surplus of gratuity for five years is as follows:**

	2012	2011	2010	2009	2008
	(Rupees in thousand)				
Gratuity (Management and non-management)					
Present value of defined benefit obligations	936,891	780,347	641,837	508,997	359,036
Fair value of plan assets	(579,501)	(342,147)	(259,659)	(245,473)	(221,619)
(Surplus) / deficit	357,390	438,200	382,178	263,524	137,417
Experience adjustments on obligations	(11,619)	(15,285)	(66,209)	(110,268)	(10,419)
Experience adjustments on plan assets	1,967	(740)	(13,999)	9,460	9,441

36. OPERATING SEGMENTS

The financial statements have been prepared on the basis of a single reportable segment. Revenue from external customers for products of the Company is disclosed in note 25.

Revenue from five major customers of the Company constitutes 96% of the total revenue during the year ended June 30, 2012 (2011: 84%).

37 FINANCIAL INSTRUMENTS

37.1 Financial assets and liabilities

	Loans and receivables	
	2012	2011
	(Rupees in thousand)	
Financial assets		
Maturity up to one year		
Trade debts	15,151,485	7,706,622
Loans and advances	862,090	887,862
Interest accrued	17,216	6,581
Other receivables	534,265	73,508
Cash and bank balances	2,950,816	3,779,987
Maturity after one year		
Long term loans and advances	6,894	2,341
Long term deposits and prepayments	9,545	10,724
	19,532,311	12,467,625

	Other financial liabilities	
Financial liabilities	2012	2011
	(Rupees in thousand)	
Maturity up to one year		
Trade and other payables	15,950,674	9,091,816
Current maturity of long term financing	442,222	420,000
Interest accrued on long term financing	56,273	78,217
Maturity after one year		
Provision for decommissioning cost	4,257,659	3,528,410
Long term financing - secured	946,667	1,300,000
Provision for employee benefits - unfunded	105,946	88,791
Provision compensated leave absences	52,003	49,141
	21,811,444	14,556,375

37.2 Credit quality of financial assets

The credit quality of Company's financial assets have been assessed below by reference to external credit ratings of counterparties determined by The Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited (JCR-VIS). The counterparties for which external credit ratings were not available have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

	Rating	2012	2011
		(Rupees in thousand)	
Trade debts			
Counterparties with external credit rating	A1+	4,966,094	1,756,816
	A1	595,367	356,074
Counterparties without external credit rating		9,590,024	5,593,732
		15,151,485	7,706,622
Counterparties without external credit rating			
Loans and advances		862,090	887,862
Interest accrued		17,216	6,581
Other receivables		534,265	73,508
		1,413,571	967,951
Bank balances			
Counterparties with external credit rating	A1+	2,831,928	3,576,854
	A1	104,555	50,014
	A2	13,791	152,660
		2,950,274	3,779,528
Counterparties without external credit rating			
Long term loans and advances		6,894	2,341
Long term deposits and prepayments		9,545	10,724
		16,439	13,065

37.3 FINANCIAL RISK MANAGEMENT

37.3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rates risk and price risk). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

a) **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:

Counter parties

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

Trade Debts

Trade debts are essentially due from fertilizer companies and power generation companies 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.

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.

As of June 30, 2012, trade debts of Rs 11,438,492 thousand (2011: Rs 5,475,171 thousand) were past due but not impaired. The ageing analysis of past due trade receivables is as follows:

	2012		2011	
	Gross	Impairment	Gross	Impairment
	(Rupees in thousand)			
Past due 0-30 days	1,133,982	-	626,045	-
Past due 30-60 days	1,163,491	-	642,787	-
Past due 60-90 days	1,038,542	-	586,930	-
Over 90 days	8,102,477	-	3,619,409	-
	11,438,492	-	5,475,171	-

b) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liability when due under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputations. The Company maintains sufficient cash and bank balances. At June 30, 2012, the Company had financial assets of Rs 19,532,311 thousand (2011: Rs 12,467,625 thousand). The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the maturity date. The amounts disclosed in the table are undiscounted cash flows:

	Less than 1 year	Between 1 to 5 years (Rupees in thousand)	Over 5 years
As at June 30, 2012			
Trade and other payables	15,950,674	-	-
Interest accrued on long term financing	56,273	-	-
Provision for decommissioning cost	17,271	68,070	4,172,318
Long term financing - secured	442,222	946,667	-
Provision for employee benefits - unfunded	-	-	105,946
Provision for compensated leave absences	-	-	52,003
As at June 30, 2011			
Trade and other payables	9,091,816	-	-
Interest accrued on long term financing	78,217	-	-
Provision for decommissioning cost	-	57,527	3,470,883
Long term financing - secured	420,000	1,300,000	-
Provision for employee benefits - unfunded	-	-	88,791
Provision for compensated leave absences	-	-	49,141

c) **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.

i) **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.

Exposure to foreign currency risk

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

	2012	2011	2012	2011
	(Rupees in thousand)		(US$ in thousand)	
Cash and bank balances	405,814	190,601	4,308	2,215
Trade and other payables	(69,708)	(126,666)	(740)	(1,472)
	336,106	63,935	3,568	743

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2012	2011	2012	2011
	(Rupees)			
US $ 1	90.53	85.85	94.20	86.05

Foreign currency sensitivity analysis

A 10 percent variation of the Pak Rupee against the US $ at June 30, would have effected 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 rate	Effect on profit	Effect on equity
		(Rupees in thousand)	
2012			
US$	+10%	16,805	16,805
	-10%	(16,805)	(16,805)
2011			
US$	+10%	3,197	3,197
	-10%	(3,197)	(3,197)

ii) **Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

	2012	2011
	(Rupees in thousand)	
Financial assets		
Cash and bank balances	2,948,979	3,779,987
	2,948,979	3,779,987
Financial liabilities		
Long term financing - Bank Alfalah Limited	1,140,000	1,520,000
Long term financing - Habib Bank Limited	248,889	200,000
	1,388,889	1,720,000

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

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, 2012 would increase/ decrease by Rs 3.900 million (2011: increase/ decrease by Rs 5.510 million). This is mainly attributable to the Company's exposure to markup rates on its variable rate borrowings.

iii) **Price risk**

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company does not have financial assets and liabilities whose fair value or future cash flows will fluctuate because of changes in market prices.

37.3.2 Capital management

The Company is operating under Mari Gas Wellhead Price Agreement. The Agreement ensures the Company's ability to continue as a going concern and also to meet its requirements for expansion, enhancement of its business and guaranteed returns to shareholders. There are no externally imposed capital requirements.

37.4 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 amortized cost. The carrying values of financial assets and liabilities approximate their fair values.

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS 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:

	2012		2011	
	Chief Executive	Chief Executive s	Chief Executive	Chief Executives
	(Rupees in thousand)			
Managerial remuneration	3,162	207,003	3,161	176,673
Company's contribution to provident fund	397	16,108	2,763	14,033
Housing and utilities	4,388	215,782	4,250	180,614
Other allowances and benefits	4,699	177,263	3,297	136,420
Bonuses	1,846	251,095	4,166	111,396
	14,492	867,251	17,637	619,136
Number of persons including those who worked part of the year	1	139	1	121

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 Company maintained cars, residential telephones and use of club facilities. Executives based at plant site, Daharki, are also provided with schooling and subsidized club facilities.

In addition 14 (2011: 14) directors were paid aggregate fee of Rs 7,426 thousand (2011: Rs 2,961 thousand).

39. 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. Transactions with related parties other than remuneration and benefits to directors and key management personnel are as follows:

	2012	2011
	(Rupees in thousand)	
Sale of gas and LPG to related parties is as follows:		
Fauji Fertilizer Company Limited	19,699,148	12,307,583
Pakistan Electric Power Company	8,613,730	7,502,690
Sui Southern Gas Company Limited	190,153	483,965
Sui Northern Gas Pipelines Limited	310,048	53,313
Foundation Gas	191,839	406,961
Foundation Power Company Daharki Limited		
Sale of gas	5,484,817	1,300,700
Line heater rental income	37,056	28,838
Deferred interest income	420,896	-
Contribution to employee benefit funds	159,857	129,792

40. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

Deferred tax asset was overstated in the prior year financial statements which has been adjusted retrospectively and the prior period financial statements have been restated. The effect of the restatement is summarized below. The restatement does not affect the current year or prior years' profit (including the guaranteed return to the shareholders under the agreement) and equity.

	(Rupees in thousand)	
	Effect for the year ended June 30, 2011	Cumulative effect upto June 30, 2011
Profit and loss account		
Increase in deferred tax expense	(333,477)	(1,571,672)
Increase in royalty expense	(39,823)	(187,685)
Increase in workers' fund expense	(12,026)	(56,681)
Decrease in current tax expense	66,743	314,560
Decrease in surplus payable to the president of Pakistan as per the Mari Gas Well Head Price Agreement	318,583	1,501,478
Net effect	-	-

Balance sheet	**As at June 30, 2011**
Decrease in deferred tax asset	(1,571,672)
Increase in royalty payable	(187,685)
Increase in workers' fund payable	(56,681)
Decrease in provision for taxation	314,560
Increase in receivable under Mari Gas Well Head Price Agreement	1,501,478
Net effect	-

Cash flow statement

There was no cash flow impact as a result of the restatement of prior period financial statements.

41. CORRESPONDING FIGURES

Comparative figures have been restated as a result of restatement of prior year financial statements as referred in note 40.

42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Board of Directors of the Company on September 27, 2012.

Lt. Gen (R) Raza Muhammad Khan
MANAGING DIRECTOR / CEO

Qaiser Javed
DIRECTOR

Notes

Proxy Form

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

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

____

of ____

whom failing ____

of ____

as my/our proxy to vote and act for me/our behalf, at the 28th Annual General Meeting of the Company, to be held on October 25, 2012 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this ______ day of______ 2012.

____
Signature of the Shareholder

____
Signature of Proxy

____
Name in Block Letters

Folio/CDC Ref: ____________

Note:

1. A member entitled to attend and vote at the above meeting may appoint a person/representative as Proxy to attend and vote on his behalf at the Meeting. The instrument of Proxy duly executed in accordance with the Articles of Association of the Company must be received at the Registered Office of the Company at 21 -Mauve Area, 3rd Road, Sector G-10/4, Islamabad not less than 48 hours before the time of holding of the meeting.
2. 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 their account numbers in CDC for verification at the time of meeting.
3. CDC account holders will further have to follow the guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

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.

www.marigas.com.pk

ISO 14001:2004 ISO 14001:2004 OHSAS 18001:1999 ISO/IEC 27001:2005

Head Office: 21-Mauve Area, 3rd Road, Sector G-10/4, Islamabad - 44000 P. O. Box: 1614 UAN: +92 51 111 410 410 FAX: +92 51 2297686
Karachi Liaison Office: D-87, Block-4, Kehkashan Clifton, Karachi - 75600 P. O. Box: 3887 UAN: +92 21 111 410 410 FAX: +92 21 5870273
Daharki Field Office: Daharki, Distric Ghotki. UAN: +92 723 111 410 410 FAX: +92 723 641038
Quetta Liaison Office: 26-Survey, 31-Defence Officers Housing Scheme, Airport Road, Quetta Tel: +92 081-2821052, 2864085, 2839790 Fax: +92 081-2834465

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