



Financial Statements 2009

Balance Sheet

as at June 30, 2009

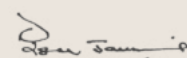
	Note	2009	2008
		(Rupees in thousand)	
SHARE CAPITAL AND RESERVES			
Authorized capital 250,000,000 ordinary shares of Rs. 10 each		2,500,000	2,500,000
Issued, subscribed and paid up capital	4	367,500	367,500
General reserve	5	2,046	2,046
Undistributed percentage return reserve	6	638,410	483,148
Exploration and evaluation reserve	7	1,951,274	1,195,106
Profit and loss account	8	5,273,492	4,151,230
		8,232,722	6,199,030
NON-CURRENT LIABILITIES			
Long term financing - secured	9	1,200,000	500,000
Provision for decommissioning cost	10	1,838,210	1,588,162
Deferred liabilities			
Employee benefits - unfunded	11	70,256	55,634
		3,108,466	2,143,796
CURRENT LIABILITIES			
Accrued and other liabilities	12	8,394,552	2,993,561
Provision for taxation	13	715,762	1,254,514
		9,110,314	4,248,075
CONTINGENCIES AND COMMITMENTS			
	14		
		20,451,502	12,590,901

The annexed notes 1 to 41 form an integral part of these financial statements.

Lt Gen Mushtaq Hussain HI(M) (Retd)

Chief Executive

	Note	2009	2008
		(Rupees in thousand)	
NON-CURRENT ASSETS			
FIXED ASSETS			
Tangible			
Property, plant and equipment	15	4,879,948	3,458,188
Intangible			
Development and production assets	16	2,651,385	2,117,261
Exploration and evaluation assets	17	1,951,274	1,195,106
		4,602,659	3,312,367
Long term loans and advances	18	2,849	2,574
Long term deposits and prepayments	19	10,301	6,820
Deferred taxation	20	946,986	701,260
		10,442,743	7,481,209
CURRENT ASSETS			
Stores and spares	21	205,710	184,623
Trade debts	22	7,188,601	2,374,041
Loans and advances	23	866,217	310,427
Short term prepayments	24	28,502	9,141
Interest accrued		15,037	12,235
Other receivables	25	10,054	4,614
Cash and cash equivalents	26	1,694,638	2,214,611
		10,008,759	5,109,692
		20,451,502	12,590,901



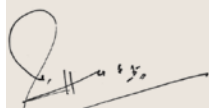
Qaiser Javed
Director

Profit and Loss Account

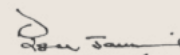
for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
Gross sales to customers		26,523,995	21,557,562
Own consumption		7,868	8,751
		26,531,863	21,566,313
Gas development surcharge		16,263,027	11,059,767
General sales tax		3,659,275	2,812,040
Excise duty		635,450	641,734
Surplus/(adjustment) payable to the President of Pakistan as per the Agreement		184,908	355,571
		20,742,660	14,869,112
Sales - net		5,789,203	6,697,201
Royalty		723,650	837,150
		5,065,553	5,860,051
Operating expenses	27	1,745,825	1,286,710
Exploration and prospecting expenditure	28	773,884	461,240
		2,519,709	1,747,950
Operating profit		2,545,844	4,112,101
Finance cost	29	321,064	187,863
Workers' fund	30	162,573	341,589
		483,637	529,452
		2,062,207	3,582,649
Other income	31	332,518	377,656
Profit before taxation		2,394,725	3,960,305
Taxation	32	242,808	1,399,893
Profit for the year		2,151,917	2,560,412
Profit for the year represents the following:			
Distributable profits		272,862	236,320
Exploration and evaluation reserve	7	756,168	685,760
Profit and loss account - undistributable balance	8.1	1,122,887	1,638,332
		2,151,917	2,560,412
Earnings per share - basic and dilutive			
Earnings per share on the basis of distributable profits (Rupees)	33	742	6.43
Earnings per share on the basis of profit and loss account (Rupees)	33	58.56	69.67

The annexed notes 1 to 41 form an integral part of these financial statements.



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



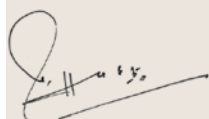
Qaiser Javed
Director

Cash Flow Statement

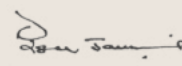
for the year ended June 30, 2009

	Note	2009	2008
(Rupees in thousand)			
Cash flows from operating activities			
Cash generated from operations	34	2,976,320	3,185,126
(Increase) / decrease in long term loans and advances		(275)	588
(Increase) / decrease in long term deposits and prepayments		(3,481)	1,927
Deferred income		-	(3,929)
Employee benefits paid - unfunded		(5,369)	(1,544)
Taxes paid		(1,027,286)	(1,413,175)
Net cash from operating activities		1,939,909	1,768,993
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,760,895)	(2,331,832)
Development and production assets		(731,100)	(7,584)
Exploration and evaluation assets		(756,168)	(685,760)
Proceeds from disposal of property, plant and equipment		1,197	19,253
Interest received		300,525	357,163
Net cash used in investing activities		(2,946,441)	(2,648,760)
Cash flows from financing activities			
Repayment of long term financing		-	(112,100)
Proceeds from long term financing		700,000	500,000
Finance cost paid		(95,097)	(3,986)
Dividends paid		(118,344)	(118,745)
Net cash from financing activities		486,559	265,169
Decrease in cash and cash equivalents		(519,973)	(614,598)
Cash and cash equivalents at beginning of year		2,214,611	2,829,209
Cash and cash equivalents at end of year	26	1,694,638	2,214,611

The annexed notes 1 to 41 form an integral part of these financial statements.



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



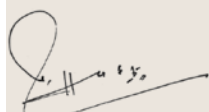
Qaiser Javed
Director

Statement of Changes in Equity

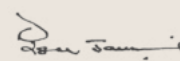
for the year ended June 30, 2009

	Share capital	General reserve	Undistributed percentage return reserve	Exploration and evaluation reserve	Profit and loss account	Total
(Rupees in thousand)						
Balance as at July 01, 2007	367,500	2,046	365,053	509,346	2,513,670	3,757,615
Profit for the year	-	-	-	-	2,560,412	2,560,412
Dividends	-	-	-	-	(118,997)	(118,997)
Undistributed percentage return reserve	-	-	118,095	-	(118,095)	-
Exploration and evaluation reserve	-	-	-	685,760	(685,760)	-
Balance as at June 30, 2008	367,500	2,046	483,148	1,195,106	4,151,230	6,199,030
Profit for the year	-	-	-	-	2,151,917	2,151,917
Dividends	-	-	-	-	(118,225)	(118,225)
Undistributed percentage return reserve	-	-	155,262	-	(155,262)	-
Exploration and evaluation reserve	-	-	-	756,168	(756,168)	-
Balance as at June 30, 2009	367,500	2,046	638,410	1,951,274	5,273,492	8,232,722

The annexed notes 1 to 41 form an integral part of these financial statements.



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



Qaiser Javed
Director

1. LEGAL STATUS AND OPERATIONS

Mari Gas Company Limited ("the Company") is a public limited company incorporated in Pakistan on December 04, 1984 under the Companies Ordinance, 1984. The shares of the Company are listed on the Karachi, Lahore and Islamabad stock exchanges in Pakistan. The Company is principally engaged in drilling, exploration, production and sale of natural gas. The gas price mechanism is governed by Mari Gas Well Head Price Agreement ("the Agreement") dated December 22, 1985 between the President of Islamic Republic of Pakistan and the Company. The registered office of the Company is situated at 21 Mauve Area, 3rd Road, G-10/4, Islamabad.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

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

2.2 SIGNIFICANT ESTIMATES

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

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

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

a) Estimation of natural gas reserves

Gas reserves are an important element in impairment testing for development and production assets of the Company. Estimates of these reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors,

including contract terms or development plans. Changes to the Company's estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

b) Provision for decommissioning cost

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

c) Employee benefits

Certain actuarial assumptions have been adopted as disclosed in note 35 to the financial statements for determination of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect the unrecognized gains and losses in those years.

d) Income taxes

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

e) Property, plant and equipment

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

2.3 ADOPTION OF APPROVED REPORTING STANDARD

During current year, the Company adopted IFRS 7 "Financial Instruments: Disclosures" which is applicable for annual periods beginning on or after July 01, 2008. IFRS 7 requires extensive disclosures regarding the significance of financial instruments for the Company's financial position and performance and, quantitative and qualitative disclosures on the nature and extent of financial risks. These requirements include many disclosures previously necessitated by International Accounting Standard (IAS) 32 "Financial Instruments: Presentation". The Company has adopted IFRS 7 from the financial year beginning July 01, 2008 and the relevant disclosures which are necessary at the initial application have been included at appropriate place in these financial statements.

2.4 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, interpretations and amendments to approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases.

Revised IAS 1 "Presentation of financial statements" (effective for annual periods beginning on or after January 01, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

Revised IAS 23 "Borrowing costs" (effective for annual periods beginning on or after January 01, 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Amendments to IAS 32 "Financial instruments: Presentation" and IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after January 01, 2009) – Puttable financial instruments and obligations arising on liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible hedged Items" (effective for annual periods beginning on or after July 01, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

Amendment to IFRS 7 "Improving disclosures about Financial Instruments" (effective for annual periods beginning on or after January 01, 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements.

Amendments to IAS 39 and IFRIC 9 "Embedded derivatives" (effective for annual periods beginning on or after January 01, 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

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

3.2 Gas price mechanism

In terms of the Agreement, well head gas price for each ensuing year is determined in accordance with the principles of gas price formula set out in Article II of the Agreement. The Agreement states that the gas price will be at the minimum level to ensure that total revenues generated from sale of gas and other income are sufficient to provide a minimum return of 30%, net of all taxes, on Shareholders' Funds (as defined in the Agreement) after meeting specified ratios and deductibles. The return to shareholders is to be escalated in the event of increase in the Company's gas production beyond the level of 425 MMSCFD at the rate of 1%, net of all taxes, on Shareholders' Funds for each additional 20 MMSCFD of gas or equivalent oil produced, prorated for part thereof on annual basis, subject to a maximum of 45%. The minimum return to shareholders for the year was 32.0% (2008 : 32.17%).

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

3.3 Taxation

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

3.4 Provisions

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

3.5 Decommissioning cost

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

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

3.6 Employee benefits

The Company operates:

- i) Defined benefit funded pension and gratuity plans for its management employees and defined benefit funded gratuity plan for its non-management employees. Contributions are made to these plans on the basis of actuarial recommendations. Actuarial valuations are conducted periodically using the Projected Unit Credit Method and the latest valuation was carried out as at June 30, 2009. The results of the valuation are summarized in note 35 to these financial statements. Actuarial gains and losses in excess of corridor limit (10 percent of the higher of fair value of plan assets and present value of obligations) are recognized over the expected remaining working lives of the employees.
- ii) Defined benefit unfunded pension plan for its non-management employees. Liability related to accumulated period of service of eligible employees is recognized based on actuarial valuation. The latest valuation was carried out as at June 30, 2009 using discount rate of 11% per annum and pension increase rate of 6% per annum.
- iii) Defined contribution provident fund for its permanent employees for which contributions are charged to profit and loss account for the year. The contributions to the fund are made by the Company at the rate of 10% per annum of the basic salary.
- iv) The Company has accrued post retirement medical benefits of its current management employees based on actuarial valuation as at June 30, 2009 using discount rate of 11% per annum and an increase in cost of medical benefits of 8% per annum.
- v) The Company has accrued post retirement leave benefits of its management employees based on actuarial valuation carried out as at June 30, 2009 using discount rate of 11% per annum and salary increase rate of 11% per annum.

3.7 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land is stated at cost. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in note 3.5 to these financial statements.

Depreciation on property, plant and equipment is charged to income using the straight line method at rates specified in note 15 to these financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives without taking into account any residual value.

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

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

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

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of the impairment loss is recognized as income in the profit and loss account.

3.8 Exploration and evaluation assets

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

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

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

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

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

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

3.9 Development and production assets

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

Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively. However amortization of drilling expenditure related to wholly owned Mari Field is charged to income over a period of 10 years in line with the requirements of the Agreement. Acquisition cost of leases, where commercial reserves have been discovered, are capitalized and amortized on unit of production basis.

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

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

3.10 Stores and spares

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

3.11 Foreign currencies

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

3.12 Revenue recognition

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

3.13 Borrowing cost

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

3.14 Joint venture operations

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

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

3.15 Financial instruments

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

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

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

3.16 Offsetting

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

3.17 Trade debts and other receivables

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

3.18 Cash and cash equivalents

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

3.19 Trade and other payables

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

3.20 Dividend

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

3.21 Transactions with related parties

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

3.22 Operating leases

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

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
4. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
24,850,007 (2008 : 24,850,007) ordinary shares of Rs. 10 each issued for cash		248,500	248,500
11,899,993 (2008 : 11,899,993) ordinary shares of Rs. 10 each issued for consideration other than cash		119,000	119,000
		367,500	367,500
Major shareholding of the Company is as follows;		%age	%age
	Fauji Foundation	40%	40%
	Oil and Gas Development Company Limited	20%	20%
	Government of Pakistan	20%	20%
5. GENERAL RESERVE			
The amount held under this reserve represents the un-appropriated profit for the period from December 04, 1984 to December 31, 1985.			
		2009	2008
		(Rupees in thousand)	
6. UNDISTRIBUTED PERCENTAGE RETURN RESERVE			
Balance as at beginning of year		483,148	365,053
Transferred from profit and loss account		155,262	118,095
Balance as at end of year		638,410	483,148
6.1	The amount held in this reserve represents the balance of the percentage return reserve on Shareholders' Funds as defined in the Agreement.		
		2009	2008
		(Rupees in thousand)	
7. EXPLORATION AND EVALUATION RESERVE			
Balance as at beginning of year		1,195,106	509,346
Additions		761,800	726,368
		1,956,906	1,235,714
Cost of dry and abandoned wells		(5,632)	(40,608)
Balance as at end of year		1,951,274	1,195,106
7.1	The Company has created this reserve pursuant to adoption of disclosure requirements of IFRS - 6 which are applicable to the Company's financial statements with effect from July 01, 2007. The reserve consists of exploration and evaluation expenditure net of cost of dry and abandoned wells. The corresponding effect of the reserve has been incorporated as exploration and evaluation assets.		

Notes to the Financial Statements

for the year ended June 30, 2009

8. PROFIT AND LOSS ACCOUNT

The amount of Rs. 5,273.492 million (2008: Rs. 4,151.230 million) represents the following:

8.1 Undistributable balance

The amount of Rs. 5,266.143 million (2008: Rs. 4,143.256 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, 2008	Generated during the year ended June 30, 2009	Total
(Rupees in thousand)			
a) Rupee element of capital expenditure (net of depreciation/ amortization) and repayment of borrowings	3,878,485	1,122,887	5,001,372
b) Maintenance of debt service ratio	90,234	-	90,234
c) Maintenance of current ratio	174,537	-	174,537
Total	4,143,256	1,122,887	5,266,143
2008	2,504,924	1,638,332	4,143,256
	Note	2009	2008
(Rupees in thousand)			
8.2 Distributable balance			
Undistributed guaranteed return		7,349	7,974

This represents the additional 2.0% (2008: 2.17%) guaranteed return to shareholders on account of increase in gas production during the year in accordance with the Agreement as referred in note 3.2 to these financial statements.

8.3 Gas Development Surcharge related to Pakistan Electric Power Company (PEPCO) will be paid to the Government as and when related amounts are received from PEPCO. Accordingly, Rs 6,511 million (2008: 1,806 million) receivable from PEPCO on this account and the amount of Rs 6,384 million (2008: Rs 865 million) payable to the Government have not been taken into account for the purpose of calculation of current ratio and consequential adjustment under provisions of clause 2.1 (c) of the Agreement.

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
9. LONG TERM FINANCING - SECURED			
Loan for Mari Deep Development	9.1	1,100,000	500,000
Loan for Zarghun Gas Development	9.2	100,000	-
		1,200,000	500,000
9.1	The Company has arranged a Syndicated Term Finance Loan from a consortium of banks led by Bank Alfalah Limited for financing of drilling of three wells in Mari Deep, Goru B reservoirs. The Loan amount for Goru B project is Rs 1,638 million. An amount of Rs 1,100 million has been disbursed uptill June 2009. The mark-up is payable semi-annually in arrears on the outstanding facility amount at six months KIBOR +1.50% per annum. The effective mark-up rate for the period ended June 30, 2009 was 14.27% (2008: 11.84%). The loan is repayable in ten equal semi-annual installments after a grace period of 24 months from date of first disbursement.		
9.2	In order to finance Zarghun Gas Field, the Company has arranged another Term Finance Loan of Rs 1,112 million from Habib Bank Limited. Out of loan amount, a sum of Rs 100 million was disbursed in February 2009. The markup 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 period ended June 30, 2009 was 14.66%. The loan is repayable in ten equal semi-annual installments after a grace period of 24 months from date of first disbursement.		
		2009	2008
		(Rupees in thousand)	
10. PROVISION FOR DECOMMISSIONING COST			
Balance as at beginning of year		1,588,162	1,307,728
Provision made during the year		57,036	113,677
		1,645,198	1,421,405
Unwinding of decommissioning cost		193,012	166,757
Balance as at end of year		1,838,210	1,588,162
The above provision is analyzed as follows:			
Wells		1,265,940	1,216,386
Gathering lines		88,237	80,755
		1,354,177	1,297,141
Unwinding of decommissioning cost			
Wells		471,652	273,728
Gathering lines		12,381	17,293
		484,033	291,021
		1,838,210	1,588,162
Significant assumptions used in computation of the provision are as follows:			
		2009	2008
		(Per annum)	
Discount rate		10.50%	10.50%
Inflation rate		7.66%	7.63%

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
11. EMPLOYEE BENEFITS - UNFUNDED			
Post retirement medical benefits	35.2	20,328	19,418
Post retirement leave benefits	35.2	35,235	23,768
Pension plan for non-management employees	35.2	14,693	12,448
		70,256	55,634
12. ACCRUED AND OTHER LIABILITIES			
Gas development surcharge		6,748,719	1,864,651
General sales tax		308,902	237,921
Excise duty		53,144	53,692
Mark-up on long term financing - secured		50,360	17,405
Workers' Welfare Fund		322,949	288,241
Workers' Profit Participation Fund	12.1	127,865	215,095
Employee benefits - funded	35.1	87,253	59,431
Retention and earnest money deposits		19,967	8,615
Payable to joint venture partners		246,946	62,848
Other accrued liabilities		201,864	143,868
Unclaimed dividend		4,449	4,030
Unpaid dividend		37,226	37,764
Payable to the President of Pakistan as per the Agreement		184,908	-
		8,394,552	2,993,561
12.1 Workers' Profit Participation Fund			
Balance as at beginning of year		215,095	75,513
Allocation for the year		127,865	215,095
Interest on delayed payments @ 24.13% (2008 : 24.29%) per annum.		14,504	94
		142,369	215,189
Amount paid to the Fund		357,464 (229,599)	290,702 (75,607)
Balance as at end of year		127,865	215,095

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
13. PROVISION FOR TAXATION			
Balance as at beginning of year		1,254,514	722,522
Provision for the year			
- Current		488,534	1,560,794
- Prior years		-	384,373
		488,534	1,945,167
Income tax paid during the year		(1,027,286)	(1,413,175)
Balance as at end of year		715,762	1,254,514
14. CONTINGENCIES AND COMMITMENTS			
14.1	In terms of Ministry of Petroleum and Natural Resources instructions through their letters DGO(AC)-5(50)/94-IA and DGO(AC)-5(50)/95 dated March 30, 1995 and October 01, 1996 respectively, the Company was advised that interest on delayed payments from PEPCO and interest on delayed payments of development surcharge to the Government be taken into account after it is actually received/paid.		
	Interest on delayed payments from PEPCO and interest on delayed payments of development surcharge to the Government of Pakistan as at June 30, 2009 amounts to Rs. 1,255.417 million (2008 : Rs. 552.247 million) and Rs. 408.821 million (2008 : Rs. 112.392 million) respectively, which will be taken into account when it is actually received/paid. However, it does not affect the current year or future years' profit after taxation which includes the return available to shareholders under the Agreement.		
		2009	2008
		(Rupees in thousand)	
14.2 Other contingencies			
Indemnity bonds given to Collector of Customs against duty concessions on import of equipment and materials		52,590	139,632
14.3 Commitments			
(i) Capital expenditure:			
- Share in joint ventures		3,555,404	2,952,174
- Others		561,753	1,384,940
		4,117,157	4,337,114
(ii) Operating lease rentals due:			
- Less than one year		19,364	9,370
- More than one year but less than five years		45,504	16,677
		64,868	26,047
		4,182,025	4,363,161

Notes to the Financial Statements

for the year ended June 30, 2009

15. 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 Gathering Lines	Capital work in progress (note 15.1)	Total
Cost															
Balance as at July 01, 2007	152,069	51,362	438,431	45,519	102,357	326	396,178	57,007	788,333	43,620	140,728	93,387	66,643	505,956	2,881,916
Additions during the year	1,568	-	11,293	-	-	-	8,429	9,315	-	3,353	20,580	11,005	14,112	2,319,940	2,399,595
Disposals	-	-	(9,137)	-	(153)	-	(13,298)	(3,872)	(188)	(1,524)	(14,937)	(6,337)	-	-	(49,446)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	(370,702)	(370,702)
Balance as at June 30, 2008	153,637	51,362	440,587	45,519	102,204	326	391,309	62,450	788,145	45,449	146,371	98,055	80,755	2,455,194	4,861,363
Depreciation															
Balance as at July 01, 2008	153,637	51,362	440,587	45,519	102,204	326	391,309	62,450	788,145	45,449	146,371	98,055	80,755	2,455,194	4,861,363
Additions during the year	498,195	-	10,389	-	307	1,143,196	28,838	11,175	13,862	2,539	87,151	33,358	7,482	2,502,756	4,339,248
Disposals	-	-	-	-	-	-	(819)	-	-	-	(1,661)	(1,246)	-	-	(3,726)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,570,871)	(2,570,871)
Balance as at June 30, 2009	651,832	51,362	450,976	45,519	102,511	1,143,522	419,328	73,625	802,007	47,988	231,861	130,167	88,237	2,387,079	6,626,014
Depreciation															
Balance as at July 01, 2007	-	4,045	151,830	24,134	57,112	85	231,132	49,002	562,892	27,094	124,543	62,053	12,602	-	1,306,524
Depreciation for the year	-	959	21,456	2,620	5,440	92	28,301	6,118	38,013	3,367	14,856	13,406	2,402	-	137,030
On disposals	-	-	(2,542)	-	(153)	-	(11,742)	(3,770)	(189)	(1,372)	(14,937)	(5,674)	-	-	(40,379)
Balance as at June 30, 2008	-	5,004	170,744	26,754	62,399	177	247,691	51,350	600,716	29,089	124,462	69,785	15,004	-	1,403,175
Depreciation															
Balance as at July 01, 2008	-	5,004	170,744	26,754	62,399	177	247,691	51,350	600,716	29,089	124,462	69,785	15,004	-	1,403,175
Depreciation for the year	-	959	21,425	2,620	5,196	180,322	29,840	6,325	39,392	3,280	47,007	7,087	2,580	-	346,033
On disposals	-	-	-	-	-	-	(391)	-	-	-	(1,661)	(1,090)	-	-	(3,142)
Balance as at June 30, 2009	-	5,963	192,169	29,374	67,595	180,499	277,140	57,675	640,108	32,369	169,808	75,782	17,584	-	1,746,066
Carrying amounts - 2008															
Carrying amounts - 2008	153,637	46,358	269,843	18,765	39,805	149	143,618	11,100	187,429	16,360	21,909	28,270	65,751	2,455,194	3,458,188
Carrying amounts - 2009															
Carrying amounts - 2009	651,832	45,399	256,807	16,145	34,916	963,023	142,188	15,950	161,899	15,619	62,053	54,385	70,653	2,387,079	4,879,948
Rates of depreciation															
	-	1-3%	5%	5%	10%	20%	10%	25%	10%	10%	30%	20%	20%	Note 3.5	

Notes to the Financial Statements

for the year ended June 30, 2009

Note	2009	2008
	(Rupees in thousand)	
15.1 CAPITAL WORKS IN PROGRESS		
Phase VI project	1,958	1,645
Mari Deep 12		
Materials and equipment	361	451
SML - 1		
Materials and equipment	2,548	2,692
Pirkoh well		
Buildings, roads and bridges	254	358
Materials and equipment	12,752	12,998
	13,006	13,356
SML - appraisal well		
Land	209	-
Buildings, roads and bridges	-	9,699
Materials and equipment	29,503	43,277
	29,712	52,976
3 Up front wells and production facilities		
Land	31,887	1,480
Buildings, roads and bridges	36,280	5,761
Materials and equipment	1,605,697	988,781
	1,673,864	996,022
Acquisition of Rig		
Machinery	-	967,356
Others	-	121,296
	-	1,088,652
Compression Study		
Consultancy services	62,303	6,750
Emergency shut down		
Material	-	38,878
Joint Ventures		
Extended well test (EWT)	114,885	-
Support of production		
Buildings, roads and bridges	124,952	34,098
Plant, machinery and others	363,490	219,674
	488,442	253,772
	2,387,079	2,455,194

Notes to the Financial Statements

for the year ended June 30, 2009

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

DESCRIPTION	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	(Rupees in thousand)					
Equipment and general plants	209	98	111	10	Through auction	M/s Saeed Mir
Equipment and general plants	39	39	-	3	Through auction	M/s Muhammad Suleman
Equipment and general plants	16	14	2	2	Through auction	M/s Mushtaq Ahmed
Equipment and general plants	555	240	315	59	As per Company policy	Various Employees
Vehicle	1,193	1,074	119	239	As per Company policy	Ex- Financial Advisor
Vehicles	1,661	1,661	-	833	Through auction	M/s Ismat Khan
Vehicle	53	16	37	51	Insurance Claim	M/s EFU General Insurance
	3,726	3,142	584	1,197		

16. DEVELOPMENT AND PRODUCTION ASSETS

Description	Producing fields		Shut-in-fields		Wells in progress	Sub total	Decommissioning cost	Total
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				
	(Rupees in thousand)							
Cost								
Balance as at July 01, 2007	2,746,659	-	-	39,799	7,467	2,793,925	1,116,820	3,910,745
Additions	311,524	-	-	6,666	317,050	635,240	99,565	734,805
Adjustment	-	-	-	-	(310,606)	(310,606)	-	(310,606)
Transfers	-	-	-	-	-	-	-	-
Balance as at June 30, 2008	3,058,183	-	-	46,465	13,911	3,118,559	1,216,385	4,334,944
Balance as at July 01, 2008	3,058,183	-	-	46,465	13,911	3,118,559	1,216,385	4,334,944
Additions	3,599	-	-	147,008	580,493	731,100	49,554	780,654
Transfers	-	-	-	-	-	-	-	-
Balance as at June 30, 2009	3,061,782	-	-	193,473	594,404	3,849,659	1,265,939	5,115,598
Amortization								
Balance as at July 01, 2007	1,781,935	-	-	-	-	1,781,935	204,849	1,986,784
Charge for the year	196,382	-	-	-	-	196,382	34,517	230,899
Balance as at June 30, 2008	1,978,317	-	-	-	-	1,978,317	239,366	2,217,683
Balance as at July 01, 2008	1,978,317	-	-	-	-	1,978,317	239,366	2,217,683
Charge for the year	212,288	-	-	-	-	212,288	34,242	246,530
Balance as at June 30, 2009	2,190,605	-	-	-	-	2,190,605	273,608	2,464,213
Carrying amount - 2008	1,079,866	-	-	46,465	13,911	1,140,242	977,019	2,117,261
Carrying amount - 2009	871,177	-	-	193,473	594,404	1,659,054	992,331	2,651,385

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
17. EXPLORATION & EVALUATION ASSETS			
Balance as at beginning of year		1,195,106	509,346
Additions		761,800	726,368
		1,956,906	1,235,714
Cost of dry and abandoned wells		(5,632)	(40,608)
Balance as at end of year		1,951,274	1,195,106

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

		2009	2008
		(Rupees in thousand)	
Current liabilities related to exploration and evaluation		246,946	62,848
Current assets related to exploration and evaluation		598,377	95,160
Exploration and prospecting expenditure	28	773,884	461,240

18. LONG TERM LOANS AND ADVANCES

Considered good - secured			
- Executives		4,369	2,960
- Other employees		5,919	5,590
		10,288	8,550
Less: current portion	23		
- Executives		3,989	2,787
- Other employees		3,450	3,189
		7,439	5,976
		2,849	2,574

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

	Balance as at July 01, 2008	Disbursements during the year	Repayments during the year	Balance as at June 30, 2009
(Rupees in thousand)				
Executives	2,960	8,335	7,806	3,489
Other employees	5,590	5,075	3,866	6,799
	8,550	13,410	11,672	10,288
	2008	9,800	10,325	11,575
				8,550

18.2 The maximum amount due from executives at the end of any month during the year was Rs. 5.101 million (2008 : Rs. 3.561 million).

18.3 The loans and advances given to executives and employees represent interest free transport loans and other advances repayable in 36 to 60 equal monthly installments. These loans and advances have been measured at cost which equals their fair value.

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
19. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		9,833	6,135
Prepayments		468	685
		10,301	6,820
20. DEFERRED TAXATION			
The balance of deferred tax is in respect of following temporary differences:			
Provision for employee benefits - unfunded		24,590	19,472
Exploration expenditure		1,208,630	894,982
Unwinding of decommissioning cost		169,411	101,857
Accelerated tax depreciation		(455,645)	(377,445)
Provision for prior years		-	62,394
Deferred tax asset	20.1	946,986	701,260
20.1 The Company has recognized deferred tax asset since the Company believes that the taxable profits will be available against which deductible temporary differences will be utilized.			
		2009	2008
		(Rupees in thousand)	
21. STORES AND SPARES			
Stores	21.1	161,539	137,654
Spares		44,171	46,969
		205,710	184,623
21.1 These include stores valuing Rs. 0.177 million (2008: Rs. 0.177 million) representing the Company's share in the joint ventures operated by ENI Pakistan Limited.			
		2009	2008
		(Rupees in thousand)	
22. TRADE DEBTS			
Associated undertakings - considered good			
Pakistan Electric Power Company		6,511,121	1,806,185
Fauji Fertilizer Company Limited		482,007	405,384
Sui Southern Gas Company Limited		3,478	908
		6,996,606	2,212,477
Others - considered good			
Engro Chemical Pakistan Limited		190,812	161,564
Fatima Fertilizer Company Limited		1,183	-
		7,188,601	2,374,041
22.1 The maximum aggregate amount outstanding at the end of any month during the year from associated undertakings was Rs. 6,511.121 million (2008 : Rs. 1,806.185 million).			

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
23. LOANS AND ADVANCES			
Current portion of long term loans and advances - considered good	18		
- Executives		3,989	2,787
- Other employees		3,450	3,189
		7,439	5,976
Advances to staff		3,592	12,175
Advances to suppliers and others		3,013	3,393
Advances to joint venture partners		817,719	128,695
Royalty paid in advance		34,454	15,759
Receivable from the President of Pakistan as per the Agreement		-	144,429
		866,217	310,427
24. SHORT TERM PREPAYMENTS			
LC Margin		20,213	2,635
Mining lease		2,904	2,888
Prepaid Insurance		1,154	84
Others		4,231	3,534
		28,502	9,141
25. OTHER RECEIVABLES			
General sales tax paid under protest		1,709	1,709
Receivable from Customs Authorities		365	365
Others		7,980	2,540
		10,054	4,614
26. CASH AND CASH EQUIVALENTS			
Cash in hand		300	158
Balances with banks on:			
Deposit accounts		1,689,104	2,208,173
Current accounts	26.1	5,234	6,280
		1,694,338	2,214,453
		1,694,638	2,214,611

26.1 These include foreign currency accounts amounting to USD Nil (2008: Nil).

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
27. OPERATING EXPENSES			
Salaries, wages and benefits		673,383	425,391
Employee benefits	27.1	69,354	64,045
Rent, rates and taxes		8,844	4,521
Legal and professional services		7,872	11,849
Fuel, light, power and water		47,333	34,775
Maintenance and repairs	27.2	104,594	71,517
Insurance		18,873	22,565
Depreciation	15	346,033	137,030
Amortization	16	246,530	230,899
Employees medical and welfare		79,452	58,996
Security and other services		256,687	186,092
Traveling		19,756	27,458
Communications		7,737	7,466
Office supplies		13,608	16,169
Technical software		4,240	21,614
Auditor's remuneration	27.3	1,297	775
Mobile dispensary and social welfare		34,580	45,446
Training		29,605	18,298
Habib Rahi reservoir study		5,965	15,882
Production logging SML & Bhitai Wells		6,504	-
Advertisement		951	7,011
Books and periodicals		1,172	425
Public relations and social activities		4,746	7,415
Directors' fee and expenses		4,065	3,311
Freight and transportation		1,741	467
Subscriptions		145	501
Miscellaneous		1,115	1,389
		1,996,182	1,421,307
Less: Recoveries from joint ventures	27.4	250,357	134,597
		1,745,825	1,286,710

27.1 These include Rs. 14.97 million (2008: Rs. 9.757 million) on account of defined contribution plan.

	2009	2008
(Rupees in thousand)		
27.2 These include:		
Maintenance and repairs - Plant & equipment	25,921	19,341
- Others	29,599	28,462
	55,520	47,803
Stores and spares - Plant & equipment	39,912	16,073
- Others	9,162	7,641
	49,074	23,714
	104,594	71,517

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008	
		(Rupees in thousand)		
27.3 Auditor's remuneration				
Audit fee		754	287	
Half year review		200	100	
Special reports		184	184	
Other certifications		57	125	
Out of pocket expenses		102	79	
		1,297	775	
27.4 Break up of Recoveries from joint ventures				
Time write cost		172,375	76,967	
Overheads		64,283	52,601	
Computer & equipment support cost		13,699	5,029	
		250,357	134,597	
28. EXPLORATION AND PROSPECTING EXPENDITURE				
		2009	2008	
		Working interest (%)		
		2009	2008	
		(Rupees in thousand)		
OPERATED BLOCKS				
Zarghun South Field	35.00	35.00	3,193	7,255
Ziarat Block	60.00	60.00	26,281	26,286
Karak Block	60.00	100.00	77,574	14,332
Noor Block	100.00	100.00	5,703	39,868
Hanna Block	40.00	60.00	(2,357)	8,547
Harnai Block	40.00	60.00	(4,102)	6,481
Sujawal Block	85.00	100.00	99,514	292,792
Sukkur Block	50.00	50.00	(2,245)	(11,607)
			203,561	383,954
NON - OPERATED BLOCKS				
Dhadar Block	27.67	27.67	27,419	1,903
Hala Block	35.00	35.00	140,886	18,942
Kot Sarang Block	25.00	25.00	5,648	(6,562)
Pasni Block	25.00	25.00	-	(6,414)
Nawabshah Block	15.00	15.00	-	(1,984)
Kohat Block	20.00	20.00	4,943	7,904
Bannu West Block	10.00	10.00	1,112	1,461
Zamurdan Block	20.00	20.00	-	55,299
Kohlu Block	30.00	30.00	3,467	2,725
Kalchas Block	20.00	20.00	47,237	4,012
Oman Block	25.00	-	339,611	-
			570,323	77,286
			773,884	461,240

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

Notes to the Financial Statements

for the year ended June 30, 2009

Note	2009	2008
	(Rupees in thousand)	
28.2 Exploration and prospecting expenditure comprises of:		
Cost of dry and abandoned wells	5,632	40,608
Prospecting expenditure	768,252	420,632
	773,884	461,240
29. FINANCE COST		
Mark-up on long term financing - secured	113,355	20,360
Unwinding of decommissioning cost	193,012	166,757
Interest on Workers' Profit Participation Fund	14,504	94
Bank charges	193	652
	321,064	187,863
30. WORKERS' FUND		
Workers' Profits Participation Fund	127,865	215,095
Workers' Welfare Fund		
Current year	34,708	81,705
Prior years	-	44,789
	34,708	126,494
	162,573	341,589
31. OTHER INCOME		
Income from financial assets		
Income on bank deposits	303,327	345,982
Exchange gain / (loss)	26,196	19,647
	329,523	365,629
Income from non financial assets		
Gain / (loss) on sale of property, plant and equipment	613	10,186
Miscellaneous	2,382	1,841
	2,995	12,027
	332,518	377,656
32. TAXATION		
Current taxation		
Current year	488,534	1,560,794
Prior years	-	384,373
	488,534	1,945,167
Deferred taxation		
Current year	(245,726)	(482,880)
Prior years	-	(62,394)
	(245,726)	(545,274)
	242,808	1,399,893

Notes to the Financial Statements

for the year ended June 30, 2009

	Note	2009	2008
32.1 RECONCILIATION OF EFFECTIVE TAX RATE		%	%
Applicable tax rate		50.00	50.00
Effect of:			
Amounts not deductible for tax purposes		7.89	6.59
Origination and reversal of temporary differences		(31.89)	(7.44)
Depletion allowance		(15.86)	(11.10)
Prior years		-	(2.71)
Aggregate effective tax rate charged to income		10.14	35.34
		2009	2008
		(Rupees in thousand)	
33. EARNINGS PER SHARE - BASIC AND DILUTIVE			
Profit for the year		2,151,917	2,560,412
Reserve for exploration & evaluation assets (note 7)		756,168	685,760
Undistributable profit as explained (note 8)		1,122,887	1,638,332
		1,879,055	2,324,092
Balance distributable profit after tax		272,862	236,320
Number of shares outstanding (in thousand)		36,750	36,750
Earnings per share on the basis of distributable profits (Rupees)		7.42	6.43
Earnings per share on the basis of profit and loss account (Rupees)		58.56	69.67
There is no dilutive effect on the basic earnings per share of the Company.			
34. CASH GENERATED FROM OPERATIONS			
Profit before taxation		2,394,725	3,960,305
Adjustments for:			
Depreciation of property, plant and equipment		346,033	137,030
Amortization of development and production assets		246,530	230,899
Gain on disposal of property, plant and equipment		(613)	(10,186)
Employee benefits - unfunded		19,991	7,240
Interest income		(303,327)	(345,982)
Finance cost		321,064	187,863
Working capital changes	34.1	(48,083)	(982,043)
		2,976,320	3,185,126
34.1 Working capital changes			
(Increase)/decrease in current assets			
Stores and spares		(21,087)	(1,832)
Trade debts		(4,814,560)	(917,316)
Loans and advances		(555,790)	191,172
Short term prepayments		(19,361)	(2,876)
Other receivables		(5,440)	(409)
		(5,416,238)	(731,261)
Increase / (decrease) in accrued and other liabilities		5,368,155	(250,782)
		(48,083)	(982,043)

Notes to the Financial Statements

for the year ended June 30, 2009

35. EMPLOYEE BENEFITS

The results of the actuarial valuation carried out as at June 30, 2009 and June 30, 2008 are as follows:

35.1 Funded benefits

	2009			2008		
	Management Pension	Management Gratuity	Non Management Gratuity	Management Pension	Management Gratuity	Non Management Gratuity
	(Rupees in thousand)					
Reconciliation of payable to defined benefit plan						
Present value of defined benefit obligations	6,568	389,319	119,678	11,169	255,481	103,555
Fair value of plan assets	(53,331)	(160,956)	(84,517)	(53,494)	(149,527)	(72,092)
Net actuarial gains/(losses) not recognized	26,999	(139,590)	(16,917)	21,979	(35,311)	(22,329)
Liability recognized in balance sheet	(19,764)	88,773	18,244	(20,346)	70,643	9,134
Movement in payable to defined benefit plan						
Balance as at beginning of year	(20,346)	70,643	9,134	(146,003)	166,022	14,539
Add: Cost for the year	(6,168)	32,620	10,895	-	40,528	9,134
	(26,514)	103,263	20,029	(146,003)	206,550	23,673
Less: Contribution to fund during the year	6,750	(14,490)	(1,785)	125,657	(135,907)	(14,539)
Balance as at end of year	(19,764)	88,773	18,244	(20,346)	70,643	9,134
Movement in fair value of plan assets						
Balance as at beginning of year	53,494	149,526	72,092	162,016	14,773	58,936
Contributions during the year	(6,749)	14,490	1,785	(125,657)	135,907	14,539
Expected return on plan assets	5,827	15,663	7,816	1,095	1,850	5,576
Actuarial gain/(loss) on plan assets	1,585	6,014	3,446	17,021	8,014	1,427
Benefits paid	(826)	(24,738)	(622)	(981)	(7,798)	(8,386)
Balance as at end of year	53,331	160,955	84,517	53,494	152,746	72,092
Plan assets comprise of:						
Defence Saving Certificates	33,163	13,057	-	35,801	11,118	-
Deposit with banks	20,168	147,898	84,517	17,643	138,409	72,092
Others	-	-	-	50	3,219	-
	53,331	160,955	84,517	53,494	152,746	72,092
Costs for the year						
Current service cost	-	19,941	6,196	-	18,241	5,116
Interest cost	1,171	27,399	11,518	1,095	22,534	8,919
Expected return on plan assets	(5,827)	(15,664)	(7,817)	(1,095)	(1,850)	(5,576)
Amortization of actuarial loss	(1,512)	944	998	-	1,603	675
Immediate recognition of curtailment gain	-	-	-	-	-	-
Recognition of vested past service cost	-	-	-	-	-	-
Total cost	(6,168)	32,620	10,895	-	40,528	9,134
Actual return on plan assets	7,157	22,785	11,303	18,119	7,135	7,125

Notes to the Financial Statements

for the year ended June 30, 2009

35.2 Un-funded benefits

	2009			2008		
	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	35,235	20,027	10,992	23,768	22,006	8,505
Net actuarial (losses)/gains not recognized	-	301	3,701	-	(2,588)	3,943
Liability recognized in balance sheet	35,235	20,328	14,693	23,768	19,418	12,448
Movement in payable to defined benefit plan						
Balance as at beginning of year	23,768	19,418	12,448	20,284	18,471	10,270
Add: Cost for the year	15,287	2,459	2,245	3,882	2,093	2,178
	39,055	21,877	14,693	24,166	20,564	12,448
Less: Payments during the year	(3,820)	(1,549)	-	(398)	(1,146)	-
Balance as at end of year	35,235	20,328	14,693	23,768	19,418	12,448
Costs for the year						
Current service cost	1,981	-	1,486	1,756	-	1,484
Interest cost	2,614	2,420	1,017	2,006	2,044	844
Immediate recognition of curtailment loss/(gain)	10,692	39	(258)	120	49	(150)
Total cost	15,287	2,459	2,245	3,882	2,093	2,178

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

	2009	2008
- Discount rate	11% per annum	11% per annum
- Expected rate of return on plan assets	11% per annum	11% per annum
- Expected rate of salary increase	11% per annum	11% per annum
- Expected rate of pension increase	6% per annum	6% per annum

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

	2009	
	(Rupees in thousand)	
	1% increase	1% decrease
Present value of medical obligations	2,144	(1,812)
Current service cost and interest cost	227	(192)

Notes to the Financial Statements

for the year ended June 30, 2009

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

	2009	2008	2007	2006	2005
		(Rupees in thousand)			
Management pension					
Present value of defined benefit obligations	6,568	11,169	11,441	176,155	165,985
Fair value of plan assets	(53,331)	(53,494)	(162,016)	(129,628)	(106,431)
(Surplus) / deficit	(46,763)	(42,325)	(150,575)	46,527	59,554
Experience adjustments on obligations	4,947	386	298	10,077	(9,356)
Experience adjustments on plan assets	1,585	17,021	6,287	2,950	3,246
Gratuity (Management and non-management)					
Present value of defined benefit obligations	508,997	359,036	312,886	(31,247)	(28,133)
Fair value of plan assets	(245,473)	(221,619)	(73,709)	(82,488)	(133,108)
(Surplus) / deficit	263,524	137,417	239,177	(113,735)	(161,241)
Experience adjustments on obligations	(110,268)	(10,419)	(3,667)	(14,331)	79
Experience adjustments on plan assets	9,460	9,441	(12,580)	(3,118)	(386)

36. FINANCIAL INSTRUMENTS

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

Notes to the Financial Statements

for the year ended June 30, 2009

36.1 Credit risk

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

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

36.1.1 Counterparties

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

Trade Debts

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

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

36.1.2 Cash and investments

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

36.1.3 Exposure to credit risk

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

	2009	2008
	(Rupees in thousand)	
Trade debts	7,188,601	2,374,041
Loans and advances	7,439	5,976
Interest accrued	15,037	12,235
Cash and bank balances	1,694,638	2,214,611
Long term loan and advances	2,849	2,574
Long Term Deposits	9,833	6,135
	8,918,397	4,615,572

Notes to the Financial Statements

for the year ended June 30, 2009

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

	2009	2008
	(Rupees in thousand)	
Fertilizer companies	674,002	566,948
Power generation company	6,511,121	1,806,185
Others	3,478	908
	7,188,601	2,374,041

The Company's most significant customer, a power generation company, accounts for Rs. 6,511.121 million of the trade debts carrying amount as at June 30, 2009 (2008: Rs. 1,806.185 million).

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

	2009	2008
	(Rupees in thousand)	
Natural gas	7,188,601	2,374,041
	7,188,601	2,374,041

36.1.4 Impairment losses

The aging of trade debts at the reporting date was:

	2009		2008	
	(Rupees in thousand)			
	Gross	Impairment	Gross	Impairment
Not past due	1,466,691	-	1,258,737	-
Past due 0-30 days	595,689	-	649,565	-
Past due 30-60 days	542,629	-	465,739	-
Past due 60-90 days	682,809	-	-	-
Over 90 days	3,900,783	-	-	-
	7,188,601	-	2,374,041	-

36.2 Liquidity risk

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

Notes to the Financial Statements

for the year ended June 30, 2009

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

	2009		2008	
	(Rupees in thousand)			
Trade and other payables	Carrying amount	Contractual cash flows	Carrying amount	Contractual cash flows
Maturity upto one year	560,812	560,812	274,530	274,530
Maturity after one year and upto two years	220,000	220,000	-	-
Maturity after two years and upto three years	230,000	230,000	100,000	100,000
Maturity after three years and upto four years	230,000	230,000	100,000	100,000
Maturity after four years and upto five years	230,000	230,000	100,000	100,000
Maturity after five years	290,000	290,000	200,000	200,000
	1,760,812	1,760,812	774,530	774,530

36.3 Market risk

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

36.4 Currency risk

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

Notes to the Financial Statements

for the year ended June 30, 2009

36.5 Interest rate risk

The interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market interest rates.

Profile

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

	2009	2008	2009	2008
	%	%	(Rupees in thousand)	
Fixed rate instruments				
Financial assets				
Cash and bank balances	1 to 16	1 to 10.7	1,694,638	2,214,611
			1,694,638	2,214,611
Financial liabilities				
Long Term Financing				
- Bank Alfalah Limited	14.27	11.84	1,100,000	500,000
- Habib Bank Limited	14.66	-	100,000	
			1,200,000	500,000

Other market price risk

The company has no exposure to other market price risk as it does not carry any financial instruments which are exposed to that risk.

36.6 Fair value of financial instruments

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

37. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

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

	2009			2008		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	(Rupees in thousand)					
Managerial remuneration	2,038	-	124,874	1,704	903	68,176
Company's contribution to provident fund	204	-	10,621	125	-	6,237
Housing and utilities	2,331	-	102,251	1,798	814	57,691
Other allowances and benefits	991	-	132,761	2,322	1,521	79,040
Bonuses	1,975	-	69,145	1,453	-	21,769
	7,539	-	439,652	7,402	3,238	232,913
Number of persons including those who worked part of the year	1	0	96	1	1	72

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

Notes to the Financial Statements

for the year ended June 30, 2009

38. TRANSACTIONS WITH RELATED PARTIES

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

	2009	2008
	(Rupees in thousand)	
Sale of gas to related parties are as follows:		
Fauji Fertilizer Company Limited	10,990,280	9,393,866
Pakistan Electric Power Company	11,198,362	8,391,144
Sui Southern Gas Company Limited	11,061	13,268
Contribution to employee benefit funds	52,226	64,070
Receivable balances with related parties are as follows:		
Fauji Fertilizer Company Limited	482,007	405,384
Pakistan Electric Power Company	6,511,121	1,806,185
Sui Southern Gas Company Limited	3,478	908

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

39. CAPITAL RISK MANAGEMENT

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

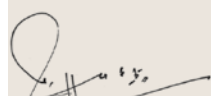
40. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors has proposed issuance of 100% bonus shares in its meeting held on September 28, 2009.

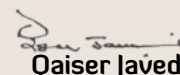
41. GENERAL

41.1 These financial statements were authorized for issue on September 28, 2009 by the Board of Directors of the Company.

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



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



Qaiser Javed
Director

Proxy Form

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

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

whom failing _____ of _____

as my/our proxy to vote and act for me/our behalf, at the 25th Annual General Meeting of the Company, to be held on October 30, 2009 and at any adjournment thereof.

Affix
Revenue
Stamp

Dated this _____ day of _____ 2009.

Signature of the Shareholder

Signature of Proxy

Name in Block Letters

Folio/CDC Ref: _____

Note:

1. This instrument appointing a proxy, duly completed, in order to be effective, must be received at the Registered Office of the Company at 21-Mauve Area, 3rd Road, Sector G-10/4, Islamabad not less than 48 hours before the time of holding of Meeting.
2. A member who has deposited shares into Central Depository Company of Pakistan Limited, must bring participant's ID Number and Account/Sub-Account Number alongwith original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting for the purpose of identification.
3. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.

Witnesses:

1. _____

2. _____

AFFIX
CORRECT
POSTAGE

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