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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of SUI NORTHERN GAS PIPELINES LIMITED to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, effective for the year ended June 30, 2006.

RIAZ AHMAD & COMPANY
Chartered Accountants

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Lahore
September 29, 2006

Auditors' Report to the Members

We have audited the annexed balance sheet of SUI NORTHERN GAS PIPELINES LIMITED as at June 30, 2006 and the related profit and loss account, 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 accounts and are further in accordance with accounting policies consistently applied except for the changes referred to in Notes 4.8, 4.16 and 4.22 to the financial statements with which we concur;

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

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

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

Without qualifying our opinion, we draw the attention to Note 4.17 to the financial statements, which explains that during the year ended June 30, 2006, the Company's return before taxation, interest and other charges on debts is less than minimum required return.

RIAZ AHMAD & COMPANY
Chartered Accountants

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Lahore
September 29, 2006

BALANCE SHEET

AS AT JUNE 30, 2006

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital			
1,500,000,000 (2005: 1,500,000,000)			
ordinary shares of Rs. 10 each		15,000,000	15,000,000
Issued, subscribed and paid up capital	5	4,991,866	4,991,866
Revenue reserves		10,116,826	7,892,142
Total equity		15,108,692	12,884,008
Non-current liabilities			
Long term financing:			
- Secured	6	1,949,084	3,473,672
- Unsecured	7	5,474,096	6,604,800
Security deposits	8	5,865,779	5,279,975
Deferred credit	9	16,663,770	10,279,438
Deferred tax	10	6,046,992	6,112,252
Employee benefits	11	312,654	381,719
		36,312,375	32,131,856
Current liabilities			
Trade and other payables	12	22,031,290	17,078,737
Accrued mark up/ interest		548,217	429,172
Current portion of long term financing	13	2,559,650	2,254,509
Taxation-net		676,345	235,748
		25,815,502	19,998,166
Total liabilities		62,127,877	52,130,022
Contingencies and commitments	14		
TOTAL EQUITY AND LIABILITIES		77,236,569	65,014,030

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

BALANCE SHEET

AS AT JUNE 30, 2006

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Property, plant and equipment	15	43,561,473	40,448,733
Intangible asset	16	6,720	-
Investment in associate	17	4,900	4,900
Long term loans	18	209,483	199,775
Long term deposits and prepayments	19	7,073	6,506
		43,789,649	40,659,914
Current assets			
Stores and spare parts	20	1,184,140	710,984
Stock in trade - gas in pipelines		445,772	346,382
Trade debts	21	14,517,536	14,195,231
Loans and advances	22	82,111	111,931
Trade deposits and short term prepayments	23	31,926	88,725
Accrued interest	24	60,760	56,071
Other receivables	25	980,650	529,708
Sales tax recoverable		743,507	-
Cash and bank balances	26	15,400,518	8,315,084
		33,446,920	24,354,116
TOTAL ASSETS		77,236,569	65,014,030

A. RASHID LONE
Chief Executive

S. M. ASGHAR
Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
Gas sales	27	107,897,291	84,710,404
Less: Gas development surcharge		2,046,177	1,333,069
		105,851,114	83,377,335
Cost of gas sold	28	91,986,318	71,192,390
Gross profit		13,864,796	12,184,945
Rental and service income	29	744,955	699,036
Surcharge and interest on gas sales arrears	30	534,470	646,662
Amortization of deferred credit	9	472,879	397,671
		15,617,100	13,928,314
Operating expenses:			
- Distribution cost	31	9,627,076	8,379,050
- Administrative expenses	32	1,172,860	910,074
		10,799,936	9,289,124
		4,817,164	4,639,190
Other operating income	33	1,828,399	918,747
		6,645,563	5,557,937
Finance cost	34	1,180,203	1,054,730
Other operating charges	35	346,300	241,730
		1,526,503	1,296,460
Profit before taxation		5,119,060	4,261,477
Taxation	36	1,396,816	1,525,499
Profit after taxation		3,722,244	2,735,978
Earnings per share - basic and diluted (Rupees)	42	7.46	5.48

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

A. RASHID LONE
Chief Executive

S. M. ASGHAR
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2006

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	37	12,073,057	7,933,309
Finance cost paid		(939,666)	(891,048)
Income taxes paid		(1,004,895)	(798,436)
Employee benefits / contributions paid		(542,031)	(2,167,976)
Security deposits received		585,804	838,023
Receipts against government grants and consumer contributions		6,008,736	2,505,585
Increase in long term loans		(16,292)	(40,596)
Increase in long term deposits and prepayments		(567)	(225)
Net cash flow from operating activities		16,164,146	7,378,636
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on property, plant and equipment		(7,172,958)	(7,097,773)
Capital expenditure on intangible asset		(6,720)	-
Proceeds from sale of property, plant and equipment		26,214	15,113
Proceeds from disposal of shares in associated undertaking		-	68,000
Return on bank deposits		1,119,817	323,779
Net cash used in investing activities		(6,033,647)	(6,690,881)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing - unsecured		617,053	1,963,414
Repayment of long term financing - unsecured		(705,378)	(593,945)
Repayment of long term financing - secured		(1,462,088)	(1,024,587)
Dividend paid		(1,494,652)	(1,237,153)
Net cash used in financing activities		(3,045,065)	(892,271)
Net increase/ (decrease) in cash and cash equivalents		7,085,434	(204,516)
Cash and cash equivalents at the beginning of the year		8,315,084	8,519,600
Cash and cash equivalents at the end of the year	26	15,400,518	8,315,084

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

A. RASHID LONE
Chief Executive

S. M. ASGHAR
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

	Note	Share Capital	Revenue Reserves: General reserve	Revenue Reserves: Dividend equalization reserve	Revenue Reserves: Unappropriated Profit	Revenue Reserves: Total	Total equity
		(Rupees in thousand)					
Balance as at June 30, 2004 - as previously reported		4,991,866	4,127,682	480,000	1,254,288	5,861,970	10,853,836
Effect of change in accounting policy	4.16	–	–	–	542,161	542,161	542,161
Balance as at June 30, 2004 - as restated		4,991,866	4,127,682	480,000	1,796,449	6,404,131	11,395,997
Final dividend for the year ended June 30, 2004 @ Rs. 2.50 per share		–	–	–	(1,247,967)	(1,247,967)	(1,247,967)
Net profit for the year		–	–	–	2,735,978	2,735,978	2,735,978
Balance as at June 30, 2005 - as restated		4,991,866	4,127,682	480,000	3,284,460	7,892,142	12,884,008
Final dividend for the year ended June 30, 2005 @ Rs. 3.00 per share		–	–	–	(1,497,560)	(1,497,560)	(1,497,560)
Net profit for the year		–	–	–	3,722,244	3,722,244	3,722,244
Balance as at June 30, 2006		4,991,866	4,127,682	480,000	5,509,144	10,116,826	15,108,692

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

A. RASHID LONE
Chief Executive

S. M. ASGHAR
Director

1. THE COMPANY AND ITS OPERATIONS

Sui Northern Gas Pipelines Limited (the Company) is a Public Limited Company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984) and listed on the Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at 21-Kashmir Road, Lahore. The principal activity of the Company is the purchase, transmission, distribution and supply of natural gas.

2. STATEMENT OF COMPLIANCE

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

2.2 Standards, interpretations and amendments to published approved accounting standards that are yet not effective

The following IASs, which have been published, have been revised and the amendments are applicable to the financial statements of the Company covering accounting periods beginning on or after January 01, 2006 or later periods:

a) IAS -1 - Capital disclosures	Effective from Jan. 01, 2007
b) IAS -19 - Actuarial gains and losses, group plans and disclosures	Effective from Jan. 01, 2006
c) IAS -39 - The fair value option	Effective from Jan. 01, 2006

Adoption of the above amendments would result in an impact on the extent of disclosures presented in the future financial statements of the Company.

3. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except modified by recognition of certain employee benefits at present value, and financial instruments carried at their fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Deferred credit

Deferred credit represents the amount received from the consumers and the Government as contribution and grant towards the cost of supplying and laying transmission, service and main lines. Amortization of deferred credit commences upon capitalization of the related asset and is amortized over its estimated useful life.

4.2 Taxation

Current

Provision for current tax is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing current tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary timing differences arising from difference between the carrying amount of the assets and liabilities in the financial statements and corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except where deferred tax arises on the items credited or charged to equity in which case it is included in equity.

4.3 Employee benefits

The main features of the funds operated by the Company for its employees are as follows:

(a) Defined benefit plans

Pension and gratuity funds

The Company operates an approved pension fund for all employees and an approved gratuity funds for executives and non-executives with a qualifying service period of five years and six years respectively. Contributions to the funds are payable on the basis of actuarial valuation. The future contribution rates of these funds include allowance for deficit and surplus.

An executive who qualifies for pension at the time of retirement from the Company and does not surrender his pension, shall be entitled to gratuity at the rate of 20 days basic salary for each completed year of service. An executive who qualifies for pension at the time of retirement from the Company and surrenders his pension, shall be entitled to gratuity at the rate of 50 days basic salary for each completed year of service.

Medical and free gas facility funds

The Company operates funds to provide free gas facility to non-executive staff and reimbursement of medical expenditure to all employees and their dependents after their retirement. In case of death of a retiree, his/her dependents are legible for the said benefits. However, all executives retired upto December 31, 2000 are also entitled to avail free gas facility. The most recent valuations were carried out as on June 30, 2006 using the projected unit credit method.

The Company's policy with regard to recognition of actuarial gains and losses is to follow the minimum recommended approach under IAS-19 “Employee Benefits”.

The principal actuarial assumptions used in the valuation of these schemes as on June 30, 2006 are:

	FUNDED			
	GRATUITY		PENSION	
	Executives	Non-executives	Executives	Non-executives
Expected of increase in salaries	8%	8%	8%	8%
Discount rate	9%	9%	9%	9%
Expected rate of return per annum on fund	12%	12%	12%	12%

	MEDICAL		FREE GAS	
	Executives	Non-executives	Executives	Non-executives
Discount rate	9%	9%	9%	9%
Expected rate of growth per annum in average cost of facility	6%	6%	8%	8%
Increase in average cost of medical facility per employee due to increase in age of recipient	2%	2%	-	-
Rate of utilization of facility by future entitled employees	-	-	-	100%
Expected rate of return per annum on fund	9%	9%	9%	9%

b) Defined contribution plan

The Company operates a recognized defined contribution provident fund scheme for all permanent employees. Equal monthly contributions are made by the employees and the Company to the fund.

c) Compensated absences

The Company provides annually for the expected cost of accumulated absences on the basis of actuarial valuations.

Executives of the Company are entitled to accumulate the unutilized privilege leaves upto 60 days and such accumulation is encashable only at the time of retirement or leaving the service of the Company.

Non-executives of the Company are entitled to accumulate the unutilized privilege leaves upto 90 days. Any leave in excess of 90 days would be credited to a special account, upto maximum of 90 days. Non-executives retiring from July 01, 2001 to June 30, 2005 would be allowed encashment of special leaves upto 90 days in addition to privilage leaves due for encashment upto 90 days. However, non-executives would be allowed to avail their accumulated privilege leaves/special leaves during service beyond 180 days upto June 30, 2005, without any restriction. From July 01, 2005 encashment of privilege leave only upto 90 days is allowed at the time of retirement.

The principal actuarial assumptions used in the valuation of compensated absences as on June 30, 2006 are:

	Executives	Non-executives
Discount rate	9%	9%
Expected rate of salary increase	8%	8%

Actuarial gains losses are recognized immediately.

4.4 Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

4.5 Provisions

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

4.6 Property, plant, equipment and depreciation

a) Cost

Operating fixed assets except freehold and leasehold land are stated at cost less accumulated depreciation. Freehold and leasehold land are stated at cost. Capital work-in-progress is stated at cost less provision for obsolescence of stores and spare parts. Cost in relation to certain assets signifies historical cost and borrowing cost referred to in Note 4.7.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only 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. All other repair and maintenance costs are charged to income during the period in which they are incurred.

b) Depreciation

Depreciation is charged to income on the straight line method so as to write off the cost of an asset over its estimated useful life at the rates given in Note 15.1. Transmission and distribution system, meter and compressor stations and equipments are depreciated at annual rates of 6% to 10% which is also in accordance with the terms of loan agreement (3252-PAK) with the World Bank. This agreement requires that depreciation be charged at rates not less than 6% per annum of the average cost of such assets in operation.

c) Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Pipelines uplifted during the year are deleted from operating fixed assets. 60% to 65% of the written down value of the uplifted pipelines representing cost of piplines and fittings is transferred to capital work-in-progress after considering its reuse capability. The balance of the written down value representing construction overheads is charged to income.

d) Change in accounting estimate

Untill the previous years, the Company used to charge half year’s depreciation on assets added during the year, while no depreciation was charged in the year of disposal. In case of assets transferred to executives, depreciation used to be charged till the date of retirement. Pursuant to change in IAS-16 “Property, plant and equipment”, the Company has changed its policy for charging depreciation. Under the new treatment, depreciation charge commences from the month in which asset is available for use and continues until the month of disposal. This change has been accounted for as a change in accounting estimate whereby current and future periods are corrected. Had there been no change in accounting estimate, the depreciation charge for the year would have been higher by Rs. 47,296 thousand while carrying value of property, plant and equipment and profit before tax shall be lower by the same amount. Due to impractibility, the future impact is not disclosed.

Further the Company revised the depreciation rate on meters from 6% to 10%, which has been effected prospectively by correcting current and future periods. Had there been no change in accounting estimate, the depreciation charge for the year would have been lower by Rs. 304,317 thousand while carrying value of property, plant and equipment and profit before tax would have been higher by the same amount.

4.7 Borrowing cost

Mark-up, interest, profit and other charges on long term financing are capitalized for the period upto the date of commissioning of the respective assets acquired out of the proceeds of such borrowings. All other mark-up, interest, profit and other charges are charged to income during the year.

4.8 Investment in associate

Investment in associate is stated at the Company's share of underlying net assets using the equity method.

Change in accounting policy

The Company has changed its policy for accounting of its investment in associate. The change has been necessitated pursuant to the revision in IAS-28 "Investment in associates", which earlier allow such investments to appear at cost in financial statements of companies which are not required to prepare consolidated financial statements. As per the new policy, investment in associate shall be accounted for using the equity method of accounting wherein the company's share of underlying net assets of the investee is recognized as the carrying amount of such investment. Difference between the amounts previously recognized and the amount calculated at each year end is recognized as share of profits of associate. Distributions received out of such profits shall be credited to the carrying amount of investment in associated undertaking.

The change in accounting policy has been made in accordance with IAS-8 "Accounting policies, change in accounting estimates and errors". This has not resulted in any change in the value of investment or profit for the current and corresponding period as the associate has earned no profit/(loss) since its incorporation.

4.9 Stores and spares

These are valued at lower of monthly moving average cost and net realizable value. Items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

4.10 Stock-in-trade

Stock of gas in pipelines is valued at the lower of cost determined on an annual average basis and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make the sale.

4.11 Trade and other receivables

Trade debts and other receivables are carried at original invoice amount, debts considered irrecoverable are written-off and provision is made for debts considered doubtful of recovery. No provision is made in respect of active consumers considered good.

4.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at book value which approximates their fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, cash at banks on current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in values.

4.13 Revenue recognition

(a) Revenue from gas sales is recognized on the basis of gas supplied to consumers at the rates fixed by the Oil and Gas Requlatory Authority (OGRA) Government of Pakistan. Accruals are made to account for the estimated gas supplied between the date of last meter reading and the year end.

(b) Meter rentals are recognized monthly, on the basis of specified rates for various categories of consumers.
(c) Interest on bank deposits is recognized on accrual basis.

4.14 Foreign currencies

The financial statements are presented in Pak Rupees, which is the Company's functional currency. Transactions in foreign currency during the year are initially recorded in the functional currency at the rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at functional currency rates of exchange prevailing at the balance sheet date. All differences are taken to the profit and loss account.

The Company has obtained foreign currency loans from World Bank which are covered under the exchange risk coverage scheme of Government of Pakistan. Under this agreement, the Company is entitled to claim from the Government, the differential between actual payment made to the World Bank and the amount at which these loans were recorded on the date of receipt. The agreement with the Government for these loans qualify as a fair value hedge.

4.15 Long term financing

All borrowings are initially recognized at the fair value less directly attributable transaction costs. Difference between the fair value and the proceeds of borrowings is recognized as income or expense in profit and loss account.

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

4.16 Financial Instruments

Financial instruments comprise long term loans, trade debts, loans and receivables, cash and bank balances, long term financings and trade and other payable.

Financial assets and liabilities are recognized at the time the Company becomes a party to the contractual provisions of the instruments.

The particular measurement methods adopted are disclosed in the individual policy statements associated with each item. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement and derecognition is charged to the profit and loss account currently.

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Change in accounting policy

During the year, pursuant to change in IAS-39 'Financial Instruments-Recognition and Measurement', the Company has changed its policy with respect to initial recognition of financial assets and liabilities. Previously, IAS-39 required initial recognition of financial assets and liabilities at cost, whereas the revised IAS-39 requires it to be measured at fair value.

Had there been no change in the accounting policy, the figures recognized in these financial statements would have been different as follows:

	2006	2005
	(Rupees in thousand)	
- Equity would have been lower by	523,321	542,161
- Long term financing-unsecured would have been higher by	564,455	613,192
- Long term loans to employees would have been higher by	65,350	62,329
- Other operating charges would have been higher by	2,588	992
	(Rupees)	
- Basic and diluted earnings per share would have been higher by	0.1	0.04

4.17 Gas Development Surcharge

Under the provisions of World Bank loan 3252-PAK, the Company is required to earn an annual return of not less than 17.50% per annum on the value of its average fixed assets in operation (net of deferred credit), before corporate income taxes, interest and other charges on debt and after excluding interest, dividends and other non-operating income. Any deficit or surplus on account of this is recoverable from or payable to the Government of Pakistan as differential margin or gas development surcharge.

During the year the Company although met the covenants mentioned above, yet it could not meet the benchmarks prescribed by the Regulator and as a result the return for the year on the aforesaid basis works out to 14.11% (2005:15.47%).

4.18 Construction contracts

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company uses "the percentage of completion method" to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

4.19 Impairment of assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

4.20 Intangible assets

Intangible assets, which are non-monetary assets without physical substance, are recognized at cost. which comprises purchase price, non-refundable purchase taxes and other directly attributable expenditures relating to their implimentation and customization. After initial recognition an intangible asset is carried at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

4.21 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- Post employment benefits (Note 4.3);
- Provision for doubtful debts (Note 4.11);
- Taxation (Note 4.2); and
- Financial instruments- initial recognition (Note 4.16)

4.22 Dividend and other appropriations

Dividend to the shareholders is recognized as a liability in the period in which it is approved by the shareholders.

Change in accounting policy

Pursuant to a clarification by the Institute of Chartered Accountants of Pakistan, the Company has changed its policy for recognition of appropriations, other than dividend and issue of bonus shares, made out of available profits after the balance sheet date. Previously, such appropriations (excluding dividend and bonus issue) were recognized in the year to which these relate. However, as per new policy, appropriations made out of available profits are recognized in the year in which such appropriations are made. However, such change has no effect on the figures recognized in the current and other period presented in these financial statements.

5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2006 (Number of shares)	2005 (Number of shares)		2006 (Rupees in thousand)	2005 (Rupees in thousand)
121,146,000	121,146,000	Ordinary shares of Rs.10 each issued as fully paid for cash	1,211,460	1,211,460
3,329,000	3,329,000	Ordinary shares of Rs.10 each issued as fully paid for consideration other than cash	33,290	33,290
374,711,672	374,711,672	Ordinary shares of Rs.10 each issued as fully paid bonus shares	3,747,116	3,747,116
499,186,672	499,186,672		4,991,866	4,991,866

5.1 Ordinary shares of the Company held by associated undertakings are as follows. These undertakings are associated to the Company only by way of common directorship:

	2006 (Number of Shares)	2005 (Number of Shares)
Dawood Hercules Chemicals Limited	98,793,500	58,593,500
Dawood Lawrancepur Limited	7,566,700	9,122,300
Sui Southern Gas Company Limited	1,900,178	1,900,178
Askari Commercial Bank Limited	2,200,020	2,200,020
Prime Commercial Bank Limited	-	10,108
Pakistan Industrial Credit and Investment Corporation Limited	39,600	36,319
Pakistan Industrial Development Corporation (Private) Limited	30,038,992	30,038,992
Central Insurance Company Limited	11,519,987	11,500,000
Faysal Bank Limited	-	675,000
National Investment Trust Limited	129,030	-
Investment Corporation of Pakistan	257,796	-
Habib Bank Limited	300	-
Bank Al Habib Limited	1,890	-
Atlas Investment Bank Limited	112,400	-
The Dawood Foundation	5,599,445	-
	158,159,838	114,076,417

6. LONG TERM FINANCING - SECURED

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
From banking companies:			
National Bank of Pakistan (NBP)		396,671	714,009
Citi Bank Syndicate (CB)		464,500	696,750
Habib Bank Limited Syndicate (HBL)		750,000	1,125,000
Standard Chartered Bank Syndicate (SCB-1)		1,050,000	1,400,000
Standard Chartered Bank Syndicate (SCB-2) (a)		375,000	500,000
Standard Chartered Bank Syndicate (SCB-2) (b)		437,500	500,000
		3,473,671	4,935,759
Less: Current portion shown under current liabilities	(13)	1,524,587	1,462,087
		1,949,084	3,473,672

6.1 Lender	Mark-up rate	No of instalments outstanding Half yearly	Quarterly	Repayment commencement date
NBP	Six month treasury bill + 1.2 % per annum	-	5	October 01, 2003
CB	Six month treasury bill + 1.2 % per annum	4	-	August 13, 2004
HBL	Six month treasury bill + 1.2 % per annum	4	-	December 28, 2004
SCB-1	Six month KIBOR + 0.9 % per annum	6	-	September 29, 2005
SCB-2 (a)	Six month KIBOR + 0.9 % per annum	6	-	December 31, 2005
SCB-2 (b)	Six month KIBOR + 0.9 % per annum	7	-	January 15, 2006

The above finances are secured by way of first pari passu andfloating charge on the present and future assets of the Company.

7. LONG TERM FINANCING- UNSECURED

	Note	2006 (Rupees in thousand)	(Restated) 2005 (Rupees in thousand)
From banking companies and other financial institutions:			
World Bank loans - Foreign currency	(7.1)	2,536,780	2,992,191
Other loans - Local currency:			
- Loans	(7.2)	3,108,811	3,423,532
- Overdue interest on loan	(7.3)	863,568	981,499
		3,972,379	4,405,031
		6,509,159	7,397,222
Less: Current portion shown under current liabilities			
World Bank loans - Foreign currency		491,297	455,411
Other loans - Local currency:			
- Loans		298,241	91,486
- Overdue interest on loan		245,525	245,525
	(13)	1,035,063	792,422
		5,474,096	6,604,800

7.1 World bank loans - Foreign currency

These comprise the following:

Loan No.	Rate of interest per annum (%)	Half yearly instalments outstanding (Nos.)	Repayment commencement date	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
3252 - PAK	0.5% above the base cost of qualified borrowing	9	March 01, 1996		3,153,945	3,701,308
3252-1 PAK	- do -	9	March 01, 1996		1,566,999	1,837,975
					4,720,944	5,539,283
Less: Receivable from the Government of Pakistan under exchange risk coverage contract				(7.1.2)	2,184,164	2,547,092
					2,536,780	2,992,191

7.1.1 The repayment of the World Bank loans is guaranteed by the Government of Pakistan for a fee payable half yearly at an annual rate of 0.5% on the outstanding balance.

7.1.2 The above represents amount receivable from the Government of Pakistan. The Company has obtained exchange risk cover from the Government of Pakistan in respect of foreign currency loans 3252-PAK and 3252-1 PAK acquired from the World Bank. The exchange risk coverage arrangement allows the Company to claim the differential between the actual payment made to the World Bank and the amount at which these loans were recorded on the date of receipt. Exchange risk fee payable to the Government of Pakistan on these loans is the difference between 14% per annum and the rate of interest intimated by the World Bank subject to minimum of 5% per annum.

	Note	2006	2005
		(Rupees in thousand)	
7.2 Loans			
From Government of Pakistan - Cash development loans	(7.2.1)	2,526,505	2,994,876
From industrial consumers	(7.2.2)	582,306	428,656
		3,108,811	3,423,532

7.2.1 These have been obtained from the Federal Government and Provincial Governments of Punjab and North West Frontier Province (NWFP) for supply of gas to new towns. The loan amounting to Rs. 1,301,208 thousand (2005: Rs. 1,546,369 thousand) carries mark-up at the rates ranging between 5% to 9% (2005: 5% to 9%) per annum and Rs. 1,222,106 thousand (2005: Rs. 1,445,274 thousand) carries mark up at the rate of six month State Bank of Pakistan's (SBP) treasury bill plus 1.2% (2005: six month SBP's treasury bill plus 1.2%) per annum on the outstanding balance or part thereof.

7.2.2 These have been obtained from certain industrial consumers for laying of gas pipelines and carry mark-up at the rates ranging between 1.5% to 2% (2005: 1.5% to 2%) per annum on the outstanding balance or part thereof and are repayable over a period of 8 to 10 years with a grace period of 2 years.

7.3 This represents overdue interest on medium term loan. Under an agreement reached with the Government of Pakistan, this overdue interest amounting to Rs. 2,455,249 thousand due on June 30, 2001 is payable in 10 equal annual instalments commencing from June 30, 2002 and does not carry any mark-up.

7.4 Fair values of loans from the Government of Pakistan and industrial consumers are estimated as the present value of all future cash flows discounted using 1.1% above State Bank of Pakistan' cut off yield rates prevailing at the time of initial recognition of respective loans.

7.5 The effective interest rates are as follows;

	2006	2005
	Rates (%)	
From Government of Pakistan - Cash development loans	2.37% to 7.54%	2.37% to 7.54%
From industrial consumers	2.79% to 9.39%	2.79% to 9.39%

	Note	2006	2005
		(Rupees in thousand)	
8. SECURITY DEPOSITS			
Consumers	(8.1)	5,848,427	5,263,604
Contractors - Houseline	(8.2)	17,352	16,371
		5,865,779	5,279,975

8.1 Consumer deposits represent security against amount due from them on account of gas sales. These are repayable on cancellation of contract for supply of gas or on submission of bank guarantees in lieu of security deposits. Interest is payable at the rate of 2% (2005: 2%) per annum on deposits amounting to Rs. 3,234,255 thousand (2005: Rs. 2,327,305 thousand). However, for Kot Addu Power Company Limited (KAPCO) having deposit of Rs. Nil (2005: Rs. 667,000 thousand) interest rate was 1% above 3 months SBP's treasury bill cut off rate with maximum of 10% per annum and for Liberty Power Limited having deposit of Rs. 384,000 thousand (2005: Rs. 384,000 thousand) interest rate is 3 months SBP treasury bills cut off rate subject to a floor of 7% (2005: 7 %) per annum. During the year the security deposit was refunded to KAPCO in lieu of bank guarantee of Rs. 983,168 thousand.

8.2 No interest is payable on the deposits from houseline contractors. These are refundable on cancellation of contract or dealership agreement.

	2006	2005
	(Rupees in thousand)	
9. DEFERRED CREDIT		
Consumer contributions against:		
- Completed jobs	8,626,365	7,472,119
- Jobs in progress	3,312,830	1,887,046
	11,939,195	9,359,165
Government grants against:		
- Completed jobs	450,258	239,987
- Jobs in progress	8,027,626	3,960,716
	8,477,884	4,200,703
	20,417,079	13,559,868
Less: Accumulated amortization:		
Opening balance	3,280,430	2,882,759
Amortization for the year	472,879	397,671
	3,753,309	3,280,430
	16,663,770	10,279,438

10. DEFERRED TAX

The liability for deferred tax comprises temporary differences relating to:

	2006	2005
Taxable temporary difference		
Accelerated tax depreciation allowance	6,847,401	6,665,538
Deductible temporary differences		
Provision for doubtful debts	(388,821)	(484,698)
Medium term loan	(343,000)	-
Interest payable on gas security deposits	(68,588)	(68,588)
	(800,409)	(553,286)
	6,046,992	6,112,252

10.1 The movement in deferred tax assets and liabilities during the year without taking into consideration the off setting of balance within the same tax jurisdiction is as follows:

	Deferred tax liability	Deferred tax assets				Net liability/ (asset)
	Accelerated tax depreciation	Provision for doubtful debts	Medium term loan	Interest payable on gas security deposits	TOTAL	
	(Rupees in thousand)					
Balance as at July 01, 2004	6,138,893	(505,552)	-	(86,562)	(592,114)	5,546,779
Charged to income statement	526,645	20,854	-	17,974	38,828	565,473
Balance as at June 30, 2005	6,665,538	(484,698)	-	(68,588)	(553,286)	6,112,252
Charged/ (credited) to income statement	181,863	95,877	(343,000)	-	(247,123)	(65,260)
Balance as at June 30, 2006	6,847,401	(388,821)	(343,000)	(68,588)	(800,409)	6,046,992

	2006	2005
	(Rupees in thousand)	
11. EMPLOYEE BENEFITS		
Accumulating compensated absences	-	3,464
Post employment benefits	312,654	378,255
	312,654	381,719

11.1 Post employment benefits- funded

	2006					
	Post employment benefits - funded					Compen- sated absences
	Medical	Free gas facility	Pension	Gratuity	Total	
	(Rupees In thousand)					
These are composed of:						
Present value of defined benefit obligation	2,343,029	630,979	2,389,599	1,272,873	6,636,480	161,090
Fair value of plan assets	(1,809,144)	(361,184)	(2,391,922)	(1,127,642)	(5,689,892)	(165,522)
Unrecognized past service cost	(82,990)	(34,465)	(100,058)	(9,341)	(226,854)	-
Unrecognized actuarial gains/ (losses)	(234,278)	(171,290)	22,566	(24,078)	(407,080)	-
Liability/ (asset) recognized in the balance sheet	216,617	64,040	(79,815)	111,812	312,654	(4,432)
Movement in net liability/ (asset)						
Liability/ (asset) at the beginning of the year	248,821	61,408	(68,407)	136,433	378,255	3,464
Charge for the year	208,988	58,223	96,670	105,927	469,808	3,158
	457,809	119,631	28,263	242,360	848,063	6,622
Contribution paid during the year	(241,192)	(55,591)	(108,078)	(130,548)	(535,409)	(11,054)
Liability/ (asset) at the end of the year	216,617	64,040	(79,815)	111,812	312,654	(4,432)
Charge for the year						
Current service cost	116,824	29,247	123,591	87,999	357,661	9,311
Interest cost	189,937	42,909	190,147	108,866	531,859	13,777
Past service cost	23,579	8,615	20,613	9,343	62,150	-
Non-vested past service cost	-	-	4,401	-	4,401	-
Expected return on plan assets	(130,863)	(26,128)	(236,365)	(114,482)	(507,838)	(13,466)
Actuarial losses/ (gains) recognized	9,511	3,580	(5,717)	14,201	21,575	(6,465)
	208,988	58,223	96,670	105,927	469,808	3,157
Actual return on plan assets during the year	155,112	30,874	410,736	174,626	771,348	15,905

11.1 Post employment benefits- funded

	2005					
	Post employment benefits - funded					Compen-sated absences
	Medical	Free gas facility	Pension	Gratuity	Total	
	(Rupees In thousand)					
These are composed of:						
Present value of defined benefit obligation	2,110,414	476,767	2,112,738	1,209,628	5,909,547	153,081
Fair value of plan assets	(1,454,032)	(290,310)	(1,969,714)	(954,015)	(4,668,071)	(149,617)
Unrecognized past service cost	(106,569)	(43,080)	(125,072)	(18,684)	(293,405)	-
Unrecognized actuarial losses	(300,992)	(81,969)	(86,359)	(100,496)	(569,816)	-
Liability/ (asset) recognized in the balance sheet	248,821	61,408	(68,407)	136,433	378,255	3,464
Movement in net liability/ (asset)						
Liability/ (asset) at the beginning of the year	1,431,348	285,781	(77,765)	202,553	1,841,917	147,283
Charge for the year	286,316	71,165	80,809	106,906	545,196	15,298
	1,717,664	356,946	3,044	309,459	2,387,113	162,581
Contribution paid during the year	(1,468,843)	(295,538)	(71,451)	(173,026)	(2,008,858)	(159,117)
Liability/ (asset) at the end of the year	248,821	61,408	(68,407)	136,433	378,255	3,464
Charge for the year						
Current service cost	96,116	21,296	104,857	78,821	301,090	17,394
Interest cost	149,471	33,298	143,945	90,703	417,417	11,783
Past service cost	23,579	8,615	20,613	9,343	62,150	-
Non-vested past service cost	-	-	4,401	-	4,401	-
Expected return on plan assets	-	-	(193,007)	(92,786)	(285,793)	-
Actuarial losses/ (gains) recognized	17,150	7,956	-	20,825	45,931	(13,879)
	286,316	71,165	80,809	106,906	545,196	15,298

	Note	2006	2005
		(Rupees in thousand)	
The charge for the year has been allocated as follows:			
Distribution cost	(31)	341,978	416,146
Administrative expenses	(32)	127,830	129,050
		469,808	545,196

12. TRADE AND OTHER PAYABLES

	Note	2006	2005 (Restated)
		(Rupees in thousand)	
Creditors for:			
- gas		18,286,343	13,593,551
- supplies		450,655	351,688
Accrued liabilities	(12.1)	1,299,600	938,221
Interest free deposits repayable on demand		9,461	8,392
Earnest money received from contractors		28,447	22,313
Mobilization and other advances		135,265	291,224
Gas development surcharge		1,407,984	1,048,165
Exchange risk and guarantee fee payable to the Government of Pakistan		82,686	103,160
Sales tax payable		-	438,252
Workers' profit participation fund	(12.2)	297,094	252,924
Unclaimed dividend		33,755	30,847
		22,031,290	17,078,737

12.1 Included is an amount of Rs. 15,954 thousand (2005: Rs. 2,840 thousand) payable to Inter State Gas Systems (Private) Limited (an associated undertaking).

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
12.2 Workers' profit participation fund			
Balance at the beginning of the year		252,924	221,482
Allocation for the year	(35)	269,427	224,288
		522,351	445,770
Interest on funds utilized in the Company's business	(34)	61	47
		522,412	445,817
Less: Payments to workers		500	463
Deposited into the Government treasury		224,818	192,430
		225,318	192,893
		297,094	252,924
13. CURRENT PORTION OF LONG TERM FINANCING			
Long term financing - secured	(6)	1,524,587	1,462,087
Long term financing - unsecured	(7)	1,035,063	792,422
		2,559,650	2,254,509

14. CONTINGENCIES AND COMMITMENTS

14.1 Taxation

14.1.1 a) The Income Tax Appellate Tribunal (ITAT) upheld the Company's contention in the appeals filed by and against the Company for the assessment years 1980-81 through 2001-02. The Department has filed appeals against the orders of ITAT before the High Court for the assessment years 1980-81 through 1993-94. Pending the outcome of appeals filed by the tax department with the High Court, no provision has been made in the financial statements for additional demands in respect of assessment years 1980-81 to 2002-03 and tax year 2003 which on similar basis as used in the past by the tax authorities would amount to Rs. 413,968 thousand (2005: Rs. 455,158 thousand).

b) In framing the assessment for the years 1989-90 through 2002-03 the tax authorities, in addition to the above mentioned demands, raised further demands due to a change in treatment by the tax authorities on the allowability of certain expenses previously accepted by them. The Company has disputed the contention of the tax authorities for these demands and has filed appeals with the ITAT against the orders of the tax authorities. The ITAT upheld the Company's contentions in the appeals filed for the assessment years 1989-90 to 2001-02, however, the department has filed appeals against the orders of ITAT before the High Court for the assessment years 1989-90 through 1993-94. Pending the outcome of these appeals no provision has been made in the financial statements for these additional demands for the years 1989-90 through 2002-03, which on the basis adopted by the authorities would amount to Rs. 1,151,379 thousand (2005: Rs. 1,212,541 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

c) Through an order dated June 27, 2006 the Taxation Officer has amended the assessment for the assessment year 2001-02 under section 122(5A) of the Income Tax Ordinance 2001 on the grounds that the deduction allowed earlier in respect of provision for post retirement benefits for medical and free gas facilities and provision for compensated absences aggregating Rs. 377,008 thousand were inadmissible in view of provision contained in section 24 (g) of the repealed Income Tax Ordinance, 1979. The Company has disputed the contention of the tax authorities for this demand and has filed appeal with the CIT(A). Pending the outcome of the appeal no provision has been made in the financial statements for the additional demand for the year 2001-02, which on the basis adopted by the authorities would amount to Rs. 139,476 thousand (2005: Rs Nil), since the Company has strong grounds against the assessment framed by the tax authorities. In the event of an adverse decision in the cases referred to in (a), (b) and (c) above, the balance demands, will represent the tax relief on the expenses disallowed resulting in timing differences and creation of a corresponding debit on the deferred tax account to be released to profit and loss account as these expenses are realized for tax purposes in future years.

14.1.2 The Company furnished indemnity bonds to the Collector of Customs to avail the exemption under SRO 367(1)/99 in respect of custom duty and sales tax on certain imported items amounting to Rs. 766,480 thousand (2005: Rs. 766,480 thousand). Liabilities in respect of indemnity bonds may arise on items not consumed within five years from the date of receipt. Such liability, if any, will be treated as part of the cost of such items.

14.2 Interest on overdue WAPDA balance

The Company has claimed interest according to the terms of the contract amounting to Rs. 356,383 thousand (2005: Rs. 175,390 thousand) from WAPDA on overdue payments for gas supplied. To date this interest has not been paid by WAPDA. In previous years the Company had charged WAPDA interest on overdue payments according to contractual terms with WAPDA, however, the interest was subsequently settled at reduced amount on the basis of agreement with WAPDA through the Government of Pakistan. Consequently based on these circumstances the Company's management is of the view that at present settlement of the interest is uncertain and as such revenue that would flow to the Company cannot be measured reliably.

In view thereof the Company's management considers it prudent not to recognize the interest claimed as income till such time, that the amount of such interest which will flow to the Company can be measured reliably. However, in case the interest was recognized as income, there would be no effect on the profit for the year as the gas development surcharge payable to the Government of Pakistan would increase by the same amount.

14.3 Others

14.3.1 Claims against the Company not acknowledged as debts amount to Rs. 453,232 thousand (2005: Rs. 437,431 thousand).

a) Included in claims against the Company not acknowledged as debt are claims by the contractors, suppliers and consumers aggregating Rs. 76,579 thousand (2005: Rs. 79,812 thousand). Pending the outcome of these claims, which are with the various courts no provision has been made in these financial statements as in the management's view the Company has strong grounds in the cases lodged.

b) Included in claims against the Company not acknowledged as debt is the claim of employees union for bonus amounting to Rs. 255,000 thousand (2005: Rs. 255,000 thousand) approximately, which has been decided by National Industrial Relations Commission (NIRC) against the Company. The Lahore High Court while admitting Company's writ petition for regular hearing has suspended the order of NIRC, subject to Company's furnishing an undertaking in respect of the bonus amount. The Company has filed an appeal with the Honourable Supreme Court of Pakistan on September 19, 2001 on the grounds that order of NIRC is without jurisdiction and is void. The appeal has not so far been fixed for hearing. No provision has been made in the financial statements for the amount of bonus as the Company's legal advisor is of the view that there is a reasonably fair chance that the case will be decided in favour of the Company.

14.4 Commitments in respect of

a) Contracts for capital and other expenditure amount to Rs. 677,481 thousand (2005: Rs. 1,254,769 thousand).

b) Letters of credit for capital and other expenditure amount to Rs. 1,761,779 thousand (2005: Rs. 1,305,077 thousand).

15. PROPERTY, PLANT AND EQUIPMENT

	Note	2006	2005
		(Rupees in thousand)	
Operating fixed assets	(15.1)	38,159,327	36,846,015
Capital work in progress	(15.2)	5,402,146	3,602,718
		43,561,473	40,448,733

15.1 Operating fixed assets

DESCRIPTION	BALANCE AS AT JULY 01, 2005 Cost	Accumulated Depreciation	Net Book Value	MOVEMENT DURING THE YEAR Additions	Disposal Cost/ (Accumulated depreciation)	Depreciation Charge	BALANCE AS AT JUNE 30, 2006 Cost	Accumulated Depreciation	Net Book Value	Depreciation Rates %
	(Rupees in Thousand)									
Freehold land	493,496	-	493,496	83,694	-	-	577,190	-	577,190	-
Leasehold land	392	-	392	-	-	-	392	-	392	-
Buildings and civil construction on freehold land	813,825	483,203	330,622	35,265	-	35,907	849,090	519,110	329,980	6
Buildings on leasehold land	8,461	8,461	-	-	-	-	8,461	8,461	-	6
Transmission system	31,790,706	13,442,341	18,348,365	891,675	57,772 (57,772)	1,732,584	32,624,609	15,117,153	17,507,456	6-10
Distribution system	16,372,518	6,937,872	9,434,646	2,806,781	3,634 (109)	965,800	19,175,665	7,903,563	11,272,102	6
Consumer meter and town border stations	8,035,692	3,020,830	5,014,862	1,116,850	127,627 (72,791)	782,656	9,024,915	3,730,695	5,294,220	6-10
Telecommunication system and facilities	2,130,091	1,824,769	305,322	4,712	2,171 (2,168)	186,146	2,132,632	2,008,747	123,885	15
Compressor stations and equipments	4,204,500	2,186,220	2,018,280	358,971	3,068 (3,068)	204,066	4,560,403	2,387,218	2,173,185	6-9
Plant and machinery	2,748,271	2,157,306	590,965	169,486	43,815 (43,812)	174,859	2,873,942	2,288,353	585,589	10-20
Furniture and equipment	268,649	193,936	74,713	53,452	2,902 (2,297)	27,400	319,199	219,039	100,160	15-20
Loose tools	110,555	56,383	54,172	733	-	24,654	111,288	81,037	30,251	33.33
Transport vehicles	701,186	521,006	180,180	69,675	24,239 (23,357)	84,056	746,622	581,705	164,917	25
2006:	67,678,342	30,832,327	36,846,015	5,591,294	265,228 (205,374)	4,218,128	73,004,408	34,845,081	38,159,327	
2005:				7,433,912	77,032 (53,992)	3,646,644				

- Land amounting to Rs. 463,249 thousand (2005: Rs. 391,539 thousand) is subject to the restriction under The Land Acquisition Act, 1894 and can not be sold by the Company without the approval from the respective Provincial Government.

- The amount of deletions appearing under the transmission system includes the cost of uplifted pipelines amounting to Rs. 57,772 thousand (2005: Rs. Nil) having Rs. Nil book value.

- The cost of the assets as on June 30, 2006 included fully depreciated assets amounting to Rs. 4,901,067 thousand (2005: Rs. 3,729,235 thousand).

		Note	2006	2005
			(Rupees in thousand)	
15.1.1	The depreciation charge for the year has been allocated as follows:			
	Distribution cost	(31)	3,978,547	3,565,805
	Administrative expenses	(32)	87,370	80,839
	Transmission system		46,904	-
	Distribution system		35,568	-
	Capital work in progress	(15.2)	69,739	-
			152,211	-
			4,218,128	3,646,644

15.1.2 Detail of certain assets disposed off during the year is as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
	(Rupees)					
Transport Vehicles						
Suzuki Cultus	555,000	490,567	64,433	64,433	Service Rules	K. A. Nadeem (Ex-executive)
Toyota Corolla	854,200	378,832	475,368	475,368	Service Rules	M Arif Latif (Ex-executive)
Honda City	730,500	570,641	159,859	159,859	Service Rules	M Abbas Naqvi (Ex-executive)
Isuzu double cabin	915,012	781,604	133,408	1,900,000	Insurance claim	National Insurance Company Ltd.

Book value of the other assets disposed off was less than Rs. 50,000.

		Note	2006	2005
			(Rupees in thousand)	
15.2	**Capital work in progress**			
	Transmission system		610,411	221,422
	Distribution system		2,137,906	1,318,171
	Stores and spare parts held for capital expenditure	(15.2.1)	2,480,505	1,925,964
	Advances for land and other capital expenditure		173,324	137,161
			5,402,146	3,602,718
15.2.1	**Stores and spare parts held for capital expenditure**			
	Stores and spare parts including in transit Rs. 172,014 thousand (2005: Rs. 170,939 thousand)		2,496,878	1,938,081
	Less: Provision for obsolescence		16,373	12,117
			2,480,505	1,925,964

16. INTANGIBLE ASSET

It represents information system acquired by the Company which is in process of implementation at end of the year.

17. INVESTMENT IN ASSOCIATE

	2006	2005
	(Rupees in thousand)	
Inter State Gas Systems (Private) Limited		
490,000 (2005: 49) ordinary shares of Rs 10 each	4,900	1
Advance for 489,951 ordinary shares	-	4,899
	4,900	4,900

17.1 The gross amounts of assets, liabilities and net assets of Inter State Gas Systems (Private) Limited are as follows:

	2006	2005
Assets	48,113	10,000
Liabilities	38,113	-
Net Assets	10,000	10,000
% of interest held	49	49

18. LONG TERM LOANS - CONSIDERED GOOD

	(Restated) House building		(Restated) Car		(Restated) Motorcycle/ Scooter		(Restated) Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees in thousand)							
Due from:								
Executives	5,495	7,564	118	222	-	-	5,613	7,786
Other employees	252,833	237,751	1,198	2,209	11,787	10,414	265,818	250,374
	258,328	245,315	1,316	2,431	11,787	10,414	271,431	258,160
Amount due within one year:								
Executives	1,625	2,004	57	100	-	-	1,682	2,104
Other employees	52,242	49,134	638	1,040	7,386	6,107	60,266	56,281
	53,867	51,138	695	1,140	7,386	6,107	61,948	58,385
	204,461	194,177	621	1,291	4,401	4,307	209,483	199,775
Reconciliation of balance due from executives:								
Opening balance	7,564	10,271	222	357	-	-	7,786	10,628
Disbursements	-	-	-	-	-	-	-	-
	7,564	10,271	222	357	-	-	7,786	10,628
Repayments	2,069	2,707	104	135	-	-	2,173	2,842
Closing balance	5,495	7,564	118	222	-	-	5,613	7,786

House building and car loans are repayable in 10 years, while motorcycle/ scooter loans are repayable in 3 years. Interest from 1% to 10% (2005: 1% to 10%) per annum is charged on these loans. Loans to employees are secured by deposit of title deeds and joint registration of vehicles.

The maximum amount due from the Chief Executive/ Directors and executives at any month end during the year was Rs. Nil (2005: Rs. Nil) and Rs. 7,598 thousand (2005: Rs. 10,413 thousand) respectively.

Fair values of long term loans to employees are estimated as the present value of all future cash flows discounted using rate prevailing on Regular Income Certificates for the relevant year.

	2006	2005
	Rates (%)	
Effective interest rates	6.84% to 18%	6.84% to 18%

	Note	2006	2005
		(Rupees in thousand)	
19. LONG TERM DEPOSITS AND PREPAYMENTS			
Security deposits		3,550	3,088
Prepayments		14,572	11,483
		18,122	14,571
Less: Current portion of prepayments	(23)	9,818	6,834
Provision against prepayments		1,231	1,231
		11,049	8,065
		7,073	6,506
20. STORES AND SPARE PARTS			
Stores including in transit Rs. 72,995 thousand (2005: Rs. 11,769 thousand)		641,150	362,715
Spare parts including in transit Rs. 177,094 thousand (2005: Rs. 29,401 thousand)		550,280	363,007
		1,191,430	725,722
Less: Provision for obsolescence		7,290	14,738
		1,184,140	710,984
21. TRADE DEBTS			
Considered good:			
Related parties	(21.1)	361,767	292,819
Others		14,064,665	13,483,385
Accrued gas sales		91,104	419,027
		14,517,536	14,195,231
Considered doubtful:			
Others		975,688	1,249,621
		15,493,224	15,444,852
Less: Provision for doubtful debts	(21.2)	975,688	1,249,621
		14,517,536	14,195,231
21.1 Related parties:			
Nishat Mills Limited		76,923	61,085
Sui Southern Gas Company Limited		5,242	-
ICI Pakistan Limited		53,391	57,921
Glaxo Smith Kline (Pakistan) Limited		-	129
Packages Limited		59,535	48,159
Dawood Hercules Chemicals Limited		166,676	125,525
		361,767	292,819

	Note	2006	2005
		(Rupees in thousand)	
21.2 Provision for doubtful debts			
Balance as on July 01		1,249,621	1,309,204
Provision during the year		173,603	101,060
		1,423,224	1,410,264
Less:			
Reversal of provision		-	154,510
Provision relating to debtors written off		447,536	6,133
		447,536	160,643
Balance as on June 30		975,688	1,249,621

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
22. LOANS AND ADVANCES			
Loans due from employees:			
Executives	(18)	1,682	2,104
Other employees	(18)	60,266	56,281
		61,948	58,385
Advances to other employees - considered good		3,031	1,070
Advances to suppliers and contractors		20,359	55,778
Less: Provision for doubtful receivables		3,227	3,302
		17,132	52,476
		82,111	111,931
23. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits and prepayments		45,629	107,396
Less: Provision for doubtful receivables		23,521	25,505
		22,108	81,891
Current portion of prepayments	(19)	9,818	6,834
		31,926	88,725
24. ACCRUED INTEREST			
Related parties:			
Habib Bank Limited		274	-
MCB Bank Limited		-	941
Prime Commercial Bank Limited		-	7,621
		274	8,562
Others		60,486	47,509
		60,760	56,071

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
25. OTHER RECEIVABLES			
Exchange differences on long term loans recoverable from the Government of Pakistan		966,827	487,339
Excise duty recoverable		108,945	108,945
Less: Provision for doubtful recoverable	(25.1)	108,945	95,757
		-	13,188
Provident fund trust		-	20,121
Accumulated compensated absences		4,432	-
Others		9,391	9,060
		980,650	529,708

25.1 Included is an amount of Rs.7,230 thousand (2005: Rs. Nil) relating to Dawood Hercules Chemicals Limited (a related party).

	Note	2006	2005
26. CASH AND BANK BALANCES			
Cash in hand		1,108	1,070
Cash at banks			
On deposits, including Rs. 16,569 thousand (2005: Rs. 15,325 thousand) in special account and cheques under clearance of Rs. 496,690 thousand (2005: Rs. 1,055,181 thousand)	(26.1& 26.2)	15,061,964	8,056,180
On current accounts, including remittances in transit and cheques under clearance of Rs. 331,672 thousand (2005: Rs. 226,699 thousand)		337,446	257,834
		15,399,410	8,314,014
		15,400,518	8,315,084

26.1 Rate of profit on bank deposits ranges from 0.50 % to 11.50 % (2005: 0.50 % to 9.50 %) per annum.

26.2 Balance with related parties:

	2006	2005
Askari Commercial Bank Limited	7	1,315
Habib Bank Limited	65,918	-
MCB Bank Limited	-	311,065
Prime Commercial Bank Limited	1,058,773	900,635
Bank Al-Habib Limited	17,350	219,997
Faysal Bank Limited	697	255,628
	1,142,745	1,688,640

	Note	2006	2005
		(Rupees in thousand)	
27. GAS SALES			
Gross sales		122,594,490	97,487,655
Less: Sales tax		14,696,821	12,776,581
Discount		378	670
		14,697,199	12,777,251
		107,897,291	84,710,404
28. COST OF GAS SOLD			
Opening stock of gas in pipelines		346,382	275,800
Gas purchases:			
Southern system		79,546,977	61,226,528
Northern system		8,834,096	5,517,658
Cost equalization adjustment	(28.1)	5,346,011	5,824,625
		93,727,084	72,568,811
		94,073,466	72,844,611
Less: Gas internally consumed		1,641,376	1,305,839
Closing stock of gas in pipelines		445,772	346,382
		2,087,148	1,652,221
Cost of gas sold		91,986,318	71,192,390

28.1 In accordance with the policy guidelines issued by the Government of Pakistan under section 21 of the Oil & Gas Regulatory Authority Ordinance, 2002, the Company has entered into an agreement with Sui Southern Gas Company Limited (SSGCL) for uniform pricing of gas. Under this agreement, the company with a higher weighted average cost of gas will raise a demand to the other company of the amount necessary to equalize the cost of gas for both the companies. As a consequence of this agreement, SSGCL has raised a demand of differential of cost for the equalization of cost of gas.

	Note	2006	2005
29. RENTAL AND SERVICE INCOME			
Transmission charges exclusive of sales tax of Rs. 1,178 thousand (2005: Rs. 1,248 thousand)		7,851	8,320
Meter rental exclusive of sales tax of Rs. 99,537 thousand (2005: Rs. 92,374 thousand)		663,578	615,824
Testing and reconnection charges		10,140	8,277
Income from repair work		63,386	66,615
		744,955	699,036
30. SURCHARGE AND INTEREST ON GAS SALES ARREARS			
Interest on gas sales arrears	(30.1)	234,344	385,449
Surcharge on late payments exclusive of sales tax of Rs. Nil (2005: Rs. 18,145 thousand)	(30.2)	300,126	261,213
		534,470	646,662

30.1 Interest on gas sales arrears at the rate of 1.5% (2005: 1.5%) per month upto one year and thereafter 2% (2005: 2%) per month is charged on over due amounts. Certain consumers are charged interest on gas sales arrears at the rate of SBP's 3-6 months treasury bill + 2% (2005: SBP's 3-6 months treasury bill + 2%) per annum.

30.2 One time late payment surcharge is charged on over due amounts at the rate of 10% (2005: 10%) per annum.

	Note	2006	2005
		(Rupees in thousand)	
31. DISTRIBUTION COST			
Salaries, wages and benefits	(11.1& 31.1)	2,463,770	2,169,005
Employees medical and welfare	(11.1)	307,620	358,130
Stores and spares consumed		225,241	282,131
Fuel and power		1,587,463	1,333,945
Repairs and maintenance		313,276	245,589
Rent, rates, electricity and telephone		79,797	69,845
Insurance		126,504	238,568
Travelling		56,326	44,547
Stationery and postage		26,311	19,430
Dispatch of gas bills		20,857	16,569
Transportation charges		216,583	163,171
Provision for doubtful debts		173,603	101,061
Provision for doubtful receivables		13,188	-
Professional services		991	1,176
Gathering charges of gas bills collection data		20,412	21,017
Stores and spares written off	(31.2)	42,068	19,900
Gas bills collection charges		195,136	44,942
Security expenses		169,224	111,106
Service charges	(31.3)	54,529	16,974
Advertisement		33,192	32,050
Depreciation	(15.1.1)	3,978,547	3,565,805
Others		104,748	32,017
		10,209,386	8,886,978
Less: Allocated to fixed capital expenditure		582,310	507,928
		9,627,076	8,379,050

31.1 Included in salaries, wages and benefits is Rs. 63,008 thousand (2005: Rs. 66,610 thousand) against Company's contribution to employees provident fund.

31.2 This represents book value of meters which were not considered repairable and have been written off.

31.3 This represents payment to Inter State Gas Systems (Private) Limited (an associated undertaking).

	Note	2006	2005
		(Rupees in thousand)	
32. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	(11.1 & 32.1)	790,351	725,439
Employees medical and welfare	(11.1)	99,960	117,052
Stores and spares consumed		31,543	17,451
Fuel and power		13,719	11,891
Repairs and maintenance		45,506	24,548
Rent, rates, electricity and telephone		17,425	17,959
Insurance		8,509	7,566
Travelling		14,299	11,954
Stationery and postage		16,079	12,979
Transportation charges		36,066	27,740
Professional services	(32.2)	22,895	18,104
Loans to deceased employees written off		44	-
Security expenses		13,590	10,555
OGRA fee and expenses		69,929	64,691
Advertisement		322	820
Depreciation	(15.1.1)	87,370	80,839
Others		49,143	44,727
		1,316,750	1,194,315
Less: Allocated to fixed capital expenditure		143,890	284,241
		1,172,860	910,074

32.1 Included in salaries, wages and benefits is Rs. 20,172 thousand (2005: Rs. 22,278 thousand) against Company contribution to employees provident fund.

	Note	2006	2005
		(Rupees in thousand)	
32.2 Professional services			
The charges for professional services include the following in respect of:			
Statutory audit:			
Ford Rhodes Sidat Hyder & Co.		325	275
Riaz Ahmad & Co.		325	275
		650	550
Other certifications including half yearly review:			
Ford Rhodes Sidat Hyder & Co.		965	190
Riaz Ahmad & Co.		690	150
		1,655	340
Out of pocket expenses:			
Ford Rhodes Sidat Hyder & Co.		175	175
Riaz Ahmad & Co.		175	175
		350	350
		2,655	1,240

	Note	2006	(Restated) 2005
33. OTHER OPERATING INCOME		(Rupees in thousand)	
Income from financial assets			
Interest on staff loans		26,375	24,830
Return on bank deposits		1,124,505	345,111
Gain on initial recognition of financial liabilities at fair value		93,230	122,730
Gain on sale of investment		-	21,866
Reversal of provision for doubtful debts		-	154,510
		1,244,110	669,047
Income from assets other than financial assets			
Net gain on sale of fixed assets		24,722	11,733
Insurance claims	(33.1)	2,474	7,668
		27,196	19,401
Others			
Compensation on delayed refund from tax department	(33.2)	367,781	-
Sale of tender documents		735	1,648
Sale of scrap		42,654	34,263
Credit balances written back		2,078	11,384
Liquidated damages recovered		14,107	11,744
Gain on construction contracts		78,266	168,464
Bad debt recoveries		29,782	-
Miscellaneous		21,690	2,796
		557,093	230,299
		1,828,399	918,747

33.1 This mainly represents claims received on account of ruptures of gas pipelines.

33.2 This represents statutory compensation on account of delayed refunds under Section 102 of the repealed Income Tax Ordinance, 1979.

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
34. FINANCE COST			
Mark-up/ interest/ commitment charges on:			
Long term financing:			
- Secured		393,779	237,182
- Unsecured		422,063	412,900
Security deposits		115,749	94,208
Workers' profit participation fund	(12.2)	61	47
		931,652	744,337
Exchange risk coverage fee		248,551	310,393
		1,180,203	1,054,730
35. OTHER OPERATING CHARGES			
Workers' profit participation fund	(12.2)	269,427	224,288
Exchange loss on gas purchases		31,505	-
Loss on initial recognition of financial assets at fair value		18,931	16,427
Donations	(35.1)	26,437	1,015
		346,300	241,730

35.1 None of the directors or their spouses have any interest in any of the donees.

	2006	2005
36. TAXATION		
Current tax		
- Current year	1,515,702	1,054,151
- Prior year	(53,626)	(94,125)
	1,462,076	960,026
Deferred tax	(65,260)	565,473
	1,396,816	1,525,499

36.1 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate:	%	%
Applicable tax rate as per Income Tax Ordinance, 2001	35.00	35.00
Tax effect of amounts that are:		
- Not deductible for tax purpose	3.99	1.99
- Others	(10.65)	1.02
Effect of changes in prior years tax	(1.05)	(2.21)
	(7.71)	0.80
Average effective tax rate charged to profit and loss account	27.29	35.80

	Note	2006	(Restated) 2005
		(Rupees in thousand)	
37. CASH GENERATED FROM OPERATIONS			
Profit before taxation		5,119,060	4,261,477
Adjustment for non-cash charges and other items:			
Depreciation		4,065,917	3,646,644
Employee benefits		423,707	494,957
Amortization of deferred credit		(472,879)	(397,671)
Net gain on sale of fixed assets		(24,722)	(11,733)
Finance cost		1,180,203	1,054,730
Return on bank deposits		(1,124,505)	(345,111)
Net gain on sale of investment		-	(21,866)
Provision for doubtful debts		173,603	101,061
Provision for doubtful receivables		13,188	-
Stores and spares written off		42,068	19,900
Reversal of provision for doubtful debts		-	(154,510)
Gain on initial recognition of financial liabilities at fair value		(93,230)	(122,731)
Loss on initial recognition of financial assets at fair value		18,931	16,427
Interest (income) / expense due to impact of IAS- 39		(15,908)	(14,836)
Working capital changes	(37.1)	2,767,624	(593,429)
		12,073,057	7,933,309
37.1 Working capital changes			
(Increase)/ decrease in current assets:			
Stores and spare parts		(473,156)	(131,279)
Stock in trade - gas in pipelines		(99,390)	(70,582)
Trade debts		(495,908)	(4,399,720)
Loans and advances		33,383	9,924
Trade deposits and short term prepayments		40,215	(29,248)
Other receivables		(1,207,638)	(172,346)
		(2,202,494)	(4,793,251)
Increase/ (decrease) in current liabilities			
Trade and other payables		4,970,118	4,199,822
		2,767,624	(593,429)

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year in respect of remuneration including certain benefits, to the Chief Executive and executives of the Company is as follows:

	Chief Executive		Executives	
	2006	2005	2006	2005
Number of persons	1	1	123	113
	(Rupees in thousand)			
Managerial remuneration	3,526	3,526	103,912	96,683
Contribution to provident, pension and gratuity fund	-	-	31,174	27,914
Housing and utilities	1,616	1,616	54,737	49,223
Leave encashment	-	-	1,470	934
Club subscription	4	4	61	22
	5,146	5,146	191,354	174,776

In addition, the Chief Executive and certain executives are provided with free transport subject to certain specified limits for petrol consumption, residential telephone facilities for both business and personal use and free medical facilities.

The aggregate amount charged in the financial statements in respect of directors' fee paid to fourteen (2005: fourteen) directors is Rs. 38 thousand (2005: Rs. 29 thousand). No other remuneration/compensation is paid to directors during the year.

39. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are priced at arm's length except for the assets sold to employees at written down values as approved by the Board of Directors. Prices for transactions with related parties are determined on the basis of comparable uncontrolled price method. The sale and purchase prices of natural gas are controlled by the OGRA whereas purchases other than natural gas are made through tender/ bidding system except for domestic meters being purchased only from SSGCL.

The related parties comprise associated company, directors of the Company, companies with common directorship, key management personnel and staff retirement funds. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Relationship with the Company	Nature of transactions	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Associated company	Services	(31.3)	54,529	16,974
Other related parties	Gas sales		3,946,267	3,441,123
	Purchase of materials		749,127	659,379
	Purchase of gas		67,893,488	53,623,267
	Profit received on bank deposits		183,811	68,965
	Insurance expense		147,531	257,676
	Insurance claimed received		18,125	12,585
Post employment benefit plans	Contribution to defined contribution plans	(39.1)	83,180	88,888
	Contribution to defined benefit plans	(39.1)	238,407	248,412

39.1 Contributions to the defined contribution and benefit plans are in accordance with the terms of the entitlement of employees and / or actuarial advice.

39.2 Transactions entered into with key management personnel regarding sale of assets under the terms of employment are included in Note 15.1.2 to the financial statements.

40. UNUTILIZED CREDIT FACILITIES

The Company has the facilities for opening of letters of credit amounting to Rs. 2,522,786 thousand (2005: Rs. 2,290,000 thousand) out of which Rs. 764,207 thousand (2005: Rs. 984,923 thousand) remained unutilized at the end of the year.

41. CAPACITY AND ACTUAL PERFORMANCE

The average daily gas transmitted during the year was 482,863 hm3 (2005: 453,282 hm3) against the designed capacity of 459,234 hm3 (2005: 464,868 hm3). The Company has no control over the rate of utilization of its capacity as the use of available capacity is dependent on off-takes by the consumers.

42. EARNINGS PER SHARE - BASIC AND DILUTED

		2006	2005
Net profit for the year	Rs. in thousand	3,722,244	2,735,978
Average ordinary shares in issue	Numbers	499,186,672	499,186,672
Basic earnings per share	Rs.	7.46	5.48

No figure for diluted earnings per share has been presented as the Company has not issued any instrument carrying options which would have an impact on the basic earnings per share, when exercised.

43. FINANCIAL INSTRUMENTS

	Interest / mark-up bearing						Non interest / mark-up bearing						Total	
	Maturity upto one year		Maturity after one year but less than five years		Maturity after five years		Maturity upto one year		Maturity after one year but less than five years		Maturity after five years			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees In thousand)													
Financial assets														
Long term loans	61,948	58,385	110,551	72,357	98,932	127,418	-	-	-	-	-	-	271,431	258,160
Long term deposits	-	-	-	-	-	-	-	-	-	-	3,550	3,088	3,550	3,088
Trade debts	-	-	-	-	-	-	15,493,224	15,444,852	-	-	-	-	15,493,224	15,444,852
Accrued interest	-	-	-	-	-	-	60,760	56,071	-	-	-	-	60,760	56,071
Trade deposits	-	-	-	-	-	-	12,684	26,672	-	-	-	-	12,684	26,672
Other receivables	-	-	-	-	-	-	1,085,163	605,334	-	-	-	-	1,085,163	605,334
Cash and bank balances	15,061,964	8,056,180	-	-	-	-	338,554	258,904	-	-	-	-	15,400,518	8,315,084
	15,123,912	8,114,565	110,551	72,357	98,932	127,418	16,990,385	16,391,833	-	-	3,550	3,088	32,327,330	24,709,261
Off balance sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total financial assets	15,123,912	8,114,565	110,551	72,357	98,932	127,418	16,990,385	16,391,833	-	-	3,550	3,088	32,327,330	24,709,261
Financial liabilities														
Long term financing														
- Secured	1,524,587	1,462,087	1,949,084	3,473,672	-	-	-	-	-	-	-	-	3,473,671	4,935,759
- Unsecured	1,035,063	792,422	4,149,755	3,924,356	1,324,341	2,680,444	-	-	-	-	-	-	6,509,159	7,397,222
Security deposits	-	-	-	-	5,848,427	5,263,604	-	-	-	-	17,352	16,371	5,865,779	5,279,975
Trade and other payables	-	-	-	-	-	-	19,026,612	14,401,175	-	-	-	-	19,026,612	14,401,175
Accrued mark up	-	-	-	-	-	-	548,217	429,173	-	-	-	-	548,217	429,173
	2,559,650	2,254,509	6,098,839	7,398,028	7,172,768	7,944,048	19,574,829	14,830,348	-	-	17,352	16,371	35,423,438	32,443,304
Off balance sheet														
Commitments	-	-	-	-	-	-	677,481	1,254,769	-	-	-	-	677,481	1,254,769
Letters of credit	-	-	-	-	-	-	1,761,779	1,305,077	-	-	-	-	1,761,779	1,305,077
	-	-	-	-	-	-	2,439,260	2,559,846	-	-	-	-	2,439,260	2,559,846
Total financial liabilities	2,559,650	2,254,509	6,098,839	7,398,028	7,172,768	7,944,048	22,014,089	17,390,194	-	-	17,352	16,371	37,862,698	35,003,150
On balance sheet gap	12,564,262	5,860,056	(5,988,288)	(7,325,671)	(7,073,836)	(7,816,630)	(2,584,444)	1,561,485	-	-	(13,802)	(13,283)	(3,096,108)	(7,734,043)
Off balance sheet gap	-	-	-	-	-	-	(2,439,260)	(2,559,846)	-	-	-	-	(2,439,260)	(2,559,846)

The effective interest/ mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

43.1 Financial risk management

Overall, risks arising from the Company's financial assets and liabilities are limited. The Company manages its exposure to financial risk in the following manner:

a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks are covered mainly through exchange risk cover.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has long term Rupee based loans at variable rates and fixed rates. Variable rate Rupee loans risks are minimized by instituting SBP discount rate along with caps and floors. This protects the Company against any adverse movement in market interest rates. Foreign currency loans have variable rate pricing that is dependent on the World Bank base rate with a maximum of 14% per annum inclusive of exchange risk cover fee. Foreign currency loans risks are minimized through exchange risk cover from the Government of Pakistan. Rates on loans from industrial consumers are effectively fixed.

c) Credit risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to its receivables and its bank balances. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating. Out of total financial assets of Rs. 32,327,330 thousand (2005: Rs. 24,709,261 thousand), the financial assets which are subject to credit risk amounted to Rs. 16,834,105 thousand (2005: Rs. 9,264,409 thousand). The Company believes that it is not exposed to major concentration of credit risk. To manage exposure of credit risk, the Company obtains security deposits and bank guarantees from customers.

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

43.2 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values, except for long term investment which is stated using equity method.

44. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on September 29, 2006 by the Board of Directors of the Company.

45. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on September 29, 2006 has proposed a cash dividend of Rs. 3.00 per share (2005: Rs. 3.00 per share) and 10% bonus share (2005: Nil) in respect of the year ended June 30, 2006. The appropriation will be approved by the members in the forthcoming Annual General Meeting. These financial statements do not include the effect of these appropriations which will be accounted for subsequent to the year ended.

46. CORRESPONDING FIGURES

Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no significant reclassification has been made except as detailed below:

a) Interest payable on gas consumers' securities amounting to Rs. 228,443 thousand as at June 30, 2005 has been reclassified from Trade and other payables to Accrued mark up/ interest.

b) Deferred credit as referred to in Note 9 has been reclassified and shown as part of non-current liabilities. Previously it was shown between total equity and non-current liabilities.

c) Advances to suppliers for capital expenditures amounting to Rs. 15,048 thousand as at June 30, 2005 have been reclassified from stores and spares held for capital expenditure to advances for land and other capital expenditures as referred to in Note 15.2.

A. RASHID LONE	S. M. ASGHAR
Chief Executive	Director

FORM OF PROXY

SUI NORTHERN GAS PIPELINES LIMITED

Gas House, 21-Kashmir Road, P.O. Box No. 56, Lahore-54000 Pakistan
Phones: 92-42-9201419, 9201451-60 (10 lines) Fax: 92-42-9201369, 9201302

I ____

of ______________________________________ being a member of

SUI NORTHERN GAS PIPELINES LIMITED and holder of ______________________

(number of shares)

Ordinary Shares as per Registered Folio / CDC Participant I.D. No. ______________________

hereby appoint Mr./Mrs./Miss. ____________________ of ____________________ or failing whom Mr./Mrs./Miss. ____________________ of ____________________ who is also a member of the Sui Northern Gas Pipelines Ltd., vide Registered Folio / CDC Participant I.D. No. ____________ as my proxy to vote for me and on my behalf at the 43rd Annual General Meeting of the Company to be held on Monday, October 30, 2006 at 10:30 a.m. and at any adjournment thereof.

Signed this ________ day of ________ 2006

Signature
on
Rupees Five
Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

WITNESSES:

1. Signature ______________________
   Name ______________________
   Address ______________________
   ____
   CNIC or ______________________
   Passport No. ______________________

2. Signature ______________________
   Name ______________________
   Address ______________________
   ____
   CNIC or ______________________
   Passport No. ______________________

NOTES

1. The proxy must be signed across Rupees Five revenue stamp and it should be deposited in the office of the Company Secretary not less than 48 hours before the time of holding the meeting.

2. A member entitled to attend may appoint another member as his/her proxy or may by Power of Attorney authorise any other person as his/her agent to attend, speak and vote at the meeting. The Federal Government, a Provincial Government, a corporation or a Company, as the case may be, being a member of the Company, may appoint any of its officials or any other person to act as its representative and the person so authorised shall be entitled to the same powers as if he were an individual shareholder.

For CDC account holders / corporate entities:

In addition to the above the following requirements have to be met:

i) The Proxy Form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
ii) Attested copies of CNIC or the passport of the beneficial owners and the Proxy shall be furnished with the Proxy Form.
iii) The Proxy shall produce his original CNIC or original passport at the time of the Meeting.
iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with Proxy Form to the Company.

AFFIX
CORRECT
POSTAGE

The Company Secretary
Sui Northern Gas Pipelines Ltd.,
Gas House,
21- Kashmir Road,
P.O. Box No. 56, Lahore-54000 Pakistan