

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the code of corporate governance prepared by the Board of Directors of **SUI NORTHERN GAS PIPELINES LIMITED**, for the year ended 30 June 2007, to comply with the respective listing regulations of the three 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 as at 30 June 2007.



RIAZ AHMAD AND COMPANY
CHARTERED ACCOUNTANTS



FORD RHODES SIDAT HYDER AND COMPANY
CHARTERED ACCOUNTANTS

LAHORE: 25 September 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SUI NORTHERN GAS PIPELINES LIMITED** as at **June 30, 2007** 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 account 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;
 - 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, 2007 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 4.18 to the financial statements, which explains that during the year ended June 30, 2007, the Company's return before taxation, interest and other charges on debts is less than minimum required return.



RIAZ AHMAD AND COMPANY
CHARTERED ACCOUNTANTS



FORD RHODES SIDAT HYDER AND COMPANY
CHARTERED ACCOUNTANTS

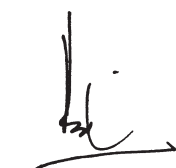
LAHORE:

BALANCE SHEET

AS AT 30 JUNE, 2007

	Note	2007 (Rupees in thousand)	2006
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital 1,500,000,000 (2006: 1,500,000,000) ordinary shares of Rs. 10 each		15,000,000	15,000,000
Issued, subscribed and paid up capital	5	5,491,053	4,991,866
Revenue reserves		10,798,422	10,116,826
Total equity		16,289,475	15,108,692
Non-current liabilities			
Long term financing:			
Secured	6	662,500	1,949,084
Unsecured	7	3,710,181	5,474,096
Security deposits	8	7,270,407	5,865,779
Deferred credit	9	23,108,412	16,663,770
Deferred liabilities:			
Deferred tax	10	6,752,570	6,046,992
Employee benefits	11	298,026	312,654
		41,802,096	36,312,375
Current liabilities			
Trade and other payables	12	22,810,592	22,031,290
Accrued mark up/ interest		467,452	548,217
Current portion of long term financing	13	2,281,243	2,559,650
Taxation-net		-	676,345
		25,559,287	25,815,502
Total liabilities		67,361,383	62,127,877
Contingencies and commitments	14	-	-
TOTAL EQUITY AND LIABILITIES		83,650,858	77,236,569

The annexed notes 1 to 45 form an integral part of these financial statements.



A. RASHID LONE
Chief Executive

	Note	2007 (Rupees in thousand)	2006
ASSETS			
Non-current assets			
Fixed assets	15	50,053,930	43,568,193
Investment in associate	16	4,978	4,900
Long term loans	17	222,310	209,483
Long term deposits and prepayments	18	6,406	7,073
		50,287,624	43,789,649
Current assets			
Stores and spare parts	19	1,089,526	1,184,140
Stock in trade - gas in pipelines		473,404	445,772
Trade debts	20	16,229,067	14,517,536
Loans and advances	21	181,414	82,111
Trade deposits and short term prepayments	22	33,293	31,926
Accrued interest	23	72,756	60,760
Other receivables	24	1,340,234	980,650
Income tax recoverable		134,079	-
Sales tax recoverable		263,233	743,507
Cash and bank balances	25	13,546,228	15,400,518
		33,363,234	33,446,920
TOTAL ASSETS		83,650,858	77,236,569


ARIF SAEED
 Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 (Rupees in thousand)	2006
Gas sales	26	122,091,652	107,897,291
Less: Gas development surcharge		9,514,600	2,046,177
		112,577,052	105,851,114
Cost of gas sold	27	99,168,250	91,986,318
Gross profit		13,408,802	13,864,796
Rental and service income	28	828,140	744,955
Surcharge and interest on gas sales arrears	29	673,241	534,470
Amortization of deferred credit	9	591,354	472,879
		15,501,537	15,617,100
Operating expenses:			
Distribution cost	30	10,692,061	9,627,076
Administrative expenses	31	1,312,983	1,172,860
		12,005,044	10,799,936
		3,496,493	4,817,164
Other operating income	32	1,855,118	1,828,399
		5,351,611	6,645,563
Finance cost	33	860,715	1,180,203
Other operating charges	34	241,324	346,300
		1,102,039	1,526,503
Profit before taxation and share from associate		4,249,572	5,119,060
Share of profit from associate - after tax	16.1	78	-
Profit before taxation		4,249,650	5,119,060
Taxation	35	1,571,307	1,396,816
Profit after taxation		2,678,343	3,722,244
Earnings per share - basic and diluted (Rupees)	41	4.88	6.78

The annexed notes 1 to 45 form an integral part of these financial statements.



A. RASHID LONE
Chief Executive



ARIF SAEED
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2007

	Note	2007 (Rupees in thousand)	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	7,038,192	12,073,057
Finance cost paid		(772,042)	(939,666)
Income taxes paid		(1,676,152)	(1,004,895)
Employee benefits / contributions paid		(514,394)	(542,031)
Security deposits received		1,404,628	585,804
Receipts against government grants and consumer contributions		5,230,531	6,008,736
Increase in long term loans		(20,813)	(16,292)
Decrease / (Increase) in long term deposits and prepayments		667	(567)
Net cash from operating activities		10,690,617	16,164,146
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on property, plant and equipment		(10,867,846)	(7,172,958)
Capital expenditure on intangible assets		(19,849)	(6,720)
Proceeds from sale of property, plant and equipment		29,254	26,214
Return on bank deposits		1,406,000	1,119,817
Net cash used in investing activities		(9,452,441)	(6,033,647)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing - unsecured		679,752	617,053
Repayment of long term financing - unsecured		(759,151)	(705,378)
Repayment of long term financing - secured		(1,524,587)	(1,462,088)
Dividend paid		(1,488,480)	(1,494,652)
Net cash used in financing activities		(3,092,466)	(3,045,065)
Net (decrease) / increase in cash and cash equivalents		(1,854,290)	7,085,434
Cash and cash equivalents at the beginning of the year		15,400,518	8,315,084
Cash and cash equivalents at the end of the year	25	13,546,228	15,400,518

The annexed notes 1 to 45 form an integral part of these financial statements.



A. RASHID LONE
Chief Executive



ARIF SAEED
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2007

	Share capital	REVENUE RESERVES			Total	Total equity
		General reserve	Dividend equalization reserve	Unappropriated profit		
----- Rupees in thousand -----						
Balance as at July 01, 2005	4,991,866	4,127,682	480,000	3,284,460	7,892,142	12,884,008
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
Dividend for the year ended June 30, 2006 @ Rs. 3.00 per share	-	-	-	(1,497,560)	(1,497,560)	(1,497,560)
Bonus shares @ 10%	499,187			(499,187)	(499,187)	-
Net profit for the year	-	-	-	2,678,343	2,678,343	2,678,343
Balance as at June 30, 2007	5,491,053	4,127,682	480,000	6,190,740	10,798,422	16,289,475

The annexed notes 1 to 45 form an integral part of these financial statements.



A. RASHID LONE
Chief Executive



ARIF SAEED
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

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 the 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 standards, amendments and interpretations of approved accounting standards effective for annual periods beginning on or after 01 July 2007, relevant to the operations of the company, are not expected to have significant impact on the Company's financial statements and may only result in certain increased disclosures:

a)	IAS-1	Presentation of Financial Statements – amendments relating to capital disclosures	Effective from January 01, 2007
b)	IAS-23	Borrowing Costs	Effective in case of borrowing costs relating to qualifying asset for which the commencement date for capitalization is on or after 01 January 2009
c)	IFRS-5	Non-Current Assets Held for Sale and Discontinued Operations	Effective from January 01, 2007
d)	IFRS-7	Financial Instruments- Disclosures	Effective from January 01, 2007
e)	IFRIC-10	Interim Financial Reporting and Impairment	Effective from November 01, 2006
f)	IFRIC-14	IAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Effective from January 01, 2008

3. BASIS OF PREPARATION

3.1 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.

3.2 Critical accounting estimates and judgements

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 judgements 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:

3.2.1 Employee benefits

The cost of the defined benefit plans is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

3.2.2 Taxation

In making the estimates for income taxes currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

3.2.3 Financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on assumptions that are dependent on market conditions existing at balance sheet date.

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 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 amounts of the assets and liabilities in the financial statements and corresponding tax bases. 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 will 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 approved pension and gratuity funds for all employees. In case of gratuity fund, qualifying period for executives and non-executives is five and six years respectively. Contributions to the funds are payable on the basis of actuarial valuation. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. 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 eligible for the said benefits. However, all executives retired upto December 31, 2000 are also entitled to avail free gas facility.

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 and non executives of the Company are entitled to accumulate the unutilized privilege leaves upto 60 days and 90 days respectively and such accumulation is encashable only at the time of retirement or leaving the service of the Company.

The most recent valuations were carried out as on June 30, 2007 using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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 present obligation (legal or constructive) 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 Fixed Assets

4.6.1 Property, plant and equipment

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 4.8.

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. Depreciation charge commences from the month in which asset is available for use and continues until the month of disposal. 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. Depreciation on addition is charged from the month in which an asset is put to use while no depreciation is charged for the month in which an asset is disposed off.

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 pipelines 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.

4.6.2 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 implementation 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.

4.7 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 can not 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.

4.8 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.

4.9 Investment in associate

Investment in associate, on which the company has significant influence but not control, is 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.

4.10 Stores and spare parts

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.

4.11 Stock-in-trade

Stock of gas in pipelines is valued at the lower of cost determined on 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.

4.12 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.

4.13 Cash and cash equivalents

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.

4.14 Revenue recognition

Revenue from gas sales is recognized on the basis of gas supplied to consumers at the rates fixed by Oil and Gas Regulatory 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.

Meter rentals are recognized monthly, on the basis of specified rates for various categories of consumers.

Interest on bank deposits is recognized on the basis of effective interest rate method.

4.15 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 rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at functional currency using rate 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 the World Bank which are covered under the exchange risk coverage scheme of the 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.

4.16 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.

Subsequent to initial recognition, borrowings are 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.

4.17 Financial instruments

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

Financial assets and liabilities are initially recognized at fair value 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.

4.18 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 10.23% (2006: 14.11%).

4.19 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.

4.20 Dividend and other appropriations

Dividend to the shareholders is recognized in the period in which it is declared and other appropriations are recognized in the period in which these are approved by the Board of Directors.

		2007 (Rupees in thousand)		2006	
5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL					
	2007 (Number of shares)	2006			
	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
	424,630,339	374,711,672	Ordinary shares of Rs.10 each issued as fully paid bonus shares	4,246,303	3,747,116
	549,105,339	499,186,672		5,491,053	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:

Dawood Hercules Chemicals Limited	108,672,850	98,793,500
Dawood Lawrancepur Limited	8,272,470	7,566,700
Sui Southern Gas Company Limited	2,090,195	1,900,178
Askari Bank Limited (Formerly Askari Commercial Bank Limited)	2,577,022	2,200,020
Pakistan Industrial Credit and Investment Corporation Limited	110	39,600
Pakistan Industrial Development Corporation (Private) Limited	33,042,891	30,038,992
Central Insurance Company Limited	12,650,000	11,519,987
Faysal Bank Limited	230,800	-
National Investment Trust Limited	141,933	129,030
Investment Corporation of Pakistan	-	257,796
Bank Al Habib Limited	-	1,890
Atlas Investment Bank Limited	-	112,400
The Dawood Foundation	6,474,465	5,599,445
Dawood Corporation (Private) Limited	17,545,000	-
	191,697,736	158,159,538

		Note	2007 (Rupees in thousand)	2006
6.	LONG TERM FINANCING - SECURED			
	From banking companies:			
	National Bank of Pakistan (NBP)		79,334	396,671
	Citi Bank N.A. Syndicate (CB)		232,250	464,500
	Habib Bank Limited Syndicate (HBL)		375,000	750,000
	Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-1)		700,000	1,050,000
	Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-2) (a)		250,000	375,000
	Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-2) (b)		312,500	437,500
			1,949,084	3,473,671
	Less: Current portion shown under current liabilities (13)		1,286,584	1,524,587
			662,500	1,949,084

6.1	Lender	Mark-up rate	No. of Instalments outstanding		Repayment commencement dates	Maturity dates
			Half yearly	Quarterly		
	NBP	Six month treasury bill + 1.2 % per annum	-	1	October 01, 2003	July 01, 2007
	CB	Six month treasury bill + 1.2 % per annum	2	-	August 13, 2004	June 13, 2008
	HBL	Six month treasury bill + 1.2 % per annum	2	-	December 28, 2004	June 28, 2008
	SCBL-1	Six month KIBOR + 0.9 % per annum	4	-	September 29, 2005	March 29, 2009
	SCBL-2 (a)	Six month KIBOR + 0.9 % per annum	4	-	December 31, 2005	July 31, 2009
	SCBL-2 (b)	Six month KIBOR + 0.9 % per annum	5	-	January 15, 2006	July 15, 2009

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

		Note	2007 (Rupees in thousand)	2006
7.	LONG TERM FINANCING - UNSECURED			
	From banking companies and other financial institutions:			
	World Bank loans - Foreign currency (7.1)		2,045,483	2,536,780
	Other loans - Local currency:			
	Loans (7.2)		1,929,050	3,108,811
	Overdue interest on loan (7.3)		730,307	863,568
			2,659,357	3,972,379
			4,704,840	6,509,159
	Less: Current portion shown under current liabilities			
	World Bank loans - Foreign currency		530,023	491,297
	Other loans - Local currency:			
	Loans		219,111	298,241
	Overdue interest on loan		245,525	245,525
		(13)	994,659	1,035,063
			3,710,181	5,474,096

7.1 World bank loans - Foreign currency

These comprise the following:

Loan No.	Rate of interest per annum	Half yearly instalments outstanding	Repayment commencement dates / Maturity dates	2007 (Rupees in thousand)	2006 (Rupees in thousand)
	(%)	(Nos.)	Note		
3252 - PAK	0.5% above the base cost of qualified borrowing	7	"March 01, 1996 / September 01, 2010"	2,582,804	3,153,945
3252-1 PAK	- do -	7	"March 01, 1996/ September 01, 2010"	1,282,735	1,566,999
				3,865,539	4,720,944
Less: Receivable from the Government of Pakistan under exchange risk coverage contract			(7.1.2)	1,820,056	2,184,164
				2,045,483	2,536,780

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	2007 (Rupees in thousand)	2006 (Rupees in thousand)
7.2 Loans			
From Government - Cash development loans	(7.2.1)	1,401,093	2,526,505
From industrial consumers	(7.2.2 & 7.2.3)	527,957	582,306
		1,929,050	3,108,811

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. 627,681 thousand (2006: Rs. 1,301,208 thousand) carries mark-up at the rates ranging between 5% to 9% (2006: 5% to 9%) per annum and Rs. 992,878 thousand (2006: Rs. 1,222,106 thousand) carries mark-up at the rate of six month State Bank of Pakistan's (SBP's) treasury bill plus 1.2 % (2006: 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% (2006: 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.

Note	2007 (Rupees in thousand)	2006
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7.2.3 Related parties:

D.G.Khan Cement Company Limited	143,944	199,256
Packages Limited	105,668	123,557
	249,612	322,813

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 are estimated at the present value of all future cash flows discounted using Pakistan Investment Bonds rates prevailing at the time of initial recognition of respective loans and loans from industrial consumers are estimated at 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 these loans.

2007	2006
Rates (%)	

7.5 The effective interest rates are as follows:

From Government - Cash development loans	7.54% to 8.00%	7.54% to 8.00%
From industrial consumers	2.79% to 9.39%	2.79% to 9.39%

2007	2006
(Rupees in thousand)	

8. SECURITY DEPOSITS

Consumers	(8.1 & 8.2)	7,252,315	5,848,427
Contractors - Houseline	(8.2)	18,092	17,352
		7,270,407	5,865,779

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% (2006: 2%) per annum on deposits amounting to Rs. 4,213,090 thousand (2006: Rs. 3,234,255 thousand). However, for Liberty Power Limited having deposit of Rs. 384,000 thousand (2006: Rs. 384,000 thousand) interest rate is 3 months SBP treasury bills cut off rate subject to a floor of 7% (2006: 3 months SBP treasury bills cut off rate subject to a floor of 7%) per annum.

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

	Note	2007 (Rupees in thousand)	2006
9. DEFERRED CREDIT			
Consumer contributions against:			
- Completed jobs		10,841,893	8,626,365
- Jobs in progress		3,122,202	3,312,830
		13,964,095	11,939,195
Government grants against:			
- Completed jobs		2,419,094	450,258
- Jobs in progress		11,069,886	8,027,626
		13,488,980	8,477,884
		27,453,075	20,417,079
Less: Accumulated amortization:			
Opening balance		3,753,309	3,280,430
Amortization for the year		591,354	472,879
		4,344,663	3,753,309
		23,108,412	16,663,770

10. DEFERRED TAX

The liability for deferred tax comprises temporary differences relating to:

Taxable temporary difference

Accelerated tax depreciation allowance	(10.1)	7,246,277	6,847,401
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Deductible temporary differences

Provision for doubtful debts	(10.1)	(440,465)	(388,821)
Interest payable on gas security deposits		(53,242)	(68,588)
Medium term loan		-	(343,000)
		(493,707)	(800,409)

		6,752,570	6,046,992
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10.1 The movement in deferred tax liability and assets during the year without taking into consideration the off setting of balance within the same tax jurisdiction is as follows:

	Note	Deferred tax liability	Deferred tax assets				Net liability
		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, 2005		6,665,538	(484,698)	-	(68,588)	(553,286)	6,112,252
Charged/ (credited) to income statement	(35)	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
Charged/ (credited) to income statement	(35)	398,876	(51,644)	343,000	15,346	306,702	705,578
Balance as at June 30, 2007		7,246,277	(440,465)	-	(53,242)	(493,707)	6,752,570

	Note	2007 (Rupees in thousand)	2006
11. EMPLOYEE BENEFITS			
Medical fund		250,279	216,617
Free gas facility fund		81,475	64,040
Pension fund		(142,056)	(79,815)
Gratuity fund		108,328	111,812
	(11.1)	298,026	312,654

11.1 Reconciliation of (receivable from) / payable to employee benefit plans:

	Note	Medical		Free gas facility		Pension		Gratuity		Total	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
----- (Rupees in thousand) -----											
Present value of funded obligations	(11.4)	2,916,228	2,343,029	727,305	630,979	2,516,148	2,389,599	1,360,363	1,272,873	7,520,044	6,636,480
Fair value of plan assets	(11.5)	(2,123,852)	(1,809,144)	(456,410)	(361,184)	(3,029,457)	(2,392,993)	(1,325,099)	(1,127,642)	(6,934,818)	(5,690,963)
	(11.10)	792,376	533,885	270,895	269,795	(513,309)	(3,394)	35,264	145,231	585,226	945,517
Unrecognized actuarial gains / (losses)		(482,688)	(234,278)	(163,570)	(171,290)	446,297	23,637	73,064	(24,078)	(126,897)	(406,009)
Unrecognized past service cost		(59,409)	(82,990)	(25,850)	(34,465)	(75,044)	(100,058)	-	(9,341)	(160,303)	(226,854)
Net liability		250,279	216,617	81,475	64,040	(142,056)	(79,815)	108,328	111,812	298,026	312,654
11.2 Movement in net liability / (asset)											
Opening liability / (asset)		216,617	248,821	64,040	61,408	(79,815)	(68,407)	111,812	136,433	312,654	378,255
Charge for the year	(11.3)	259,601	208,988	83,467	58,223	67,355	96,670	92,564	105,927	502,987	469,808
Contribution paid		(225,939)	(241,192)	(66,032)	(55,591)	(129,596)	(108,078)	(96,048)	(130,548)	(517,615)	(535,409)
		250,279	216,617	81,475	64,040	(142,056)	(79,815)	108,328	111,812	298,026	312,654
11.3 Amounts recognized in profit and loss account are as follows:											
Current service cost		183,361	116,824	39,633	29,247	131,210	123,591	91,946	87,999	446,150	357,661
Interest on obligation		210,873	189,937	56,788	42,909	215,064	190,147	114,558	108,866	597,283	531,859
Expected return on plan assets		(162,823)	(130,863)	(32,507)	(26,128)	(287,159)	(236,365)	(135,318)	(114,482)	(617,807)	(507,838)
Net actuarial losses / (gains) recognized in the year		4,609	9,511	10,938	3,580	(16,774)	(5,717)	12,037	14,201	10,810	21,575
Past service cost - Vested		23,581	23,579	8,615	8,615	20,613	20,613	9,341	9,343	62,150	62,150
Past service cost - Non-vested		-	-	-	-	4,401	4,401	-	-	4,401	4,401
Total included in employee benefit expense	(11.11)	259,601	208,988	83,467	58,223	67,355	96,670	92,564	105,927	502,987	469,808
Actual return on plan assets		151,708	155,112	44,226	30,874	606,557	410,736	237,041	174,626	1,039,532	771,348

Note	Medical		Free gas facility		Pension		Gratuity		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
------(Rupees in thousand)-----										
11.4	Changes in the present value of defined benefit obligation are as follows:									
Opening defined benefit obligation	2,343,029	2,110,414	630,979	476,767	2,389,599	2,112,738	1,272,873	1,209,628	6,636,480	5,909,547
Service cost	183,361	116,824	39,633	29,247	131,210	123,591	91,946	87,999	446,150	357,661
Interest cost	210,873	189,937	56,788	42,909	215,064	190,147	114,558	108,866	597,283	531,859
Actuarial losses / (gains)	241,904	(32,954)	14,937	97,647	(120,036)	58,657	16,618	(2,073)	153,423	121,277
Benefits paid	(62,939)	(41,192)	(15,032)	(15,591)	(99,689)	(95,534)	(135,632)	(131,547)	(313,292)	(283,864)
Closing defined benefit obligation	2,916,228	2,343,029	727,305	630,979	2,516,148	2,389,599	1,360,363	1,272,873	7,520,044	6,636,480

11.5	Changes in the fair value of plan assets are as follows:									
Opening fair value of plan assets	1,809,144	1,454,032	361,184	290,310	2,392,993	1,969,714	1,127,642	954,015	5,690,963	4,668,071
Expected return	162,823	130,863	32,507	26,128	287,159	236,365	135,318	114,482	617,807	507,838
Actuarial gains / (losses)	(11,115)	24,249	11,719	4,746	319,398	174,370	101,723	60,144	421,725	263,509
Contributions by employer	225,939	241,192	66,032	55,591	149,596	161,078	76,048	77,548	517,615	535,409
Benefits paid	(62,939)	(41,192)	(15,032)	(15,591)	(99,689)	(95,534)	(135,632)	(131,547)	(313,292)	(283,864)
Amount transferred from pension fund to gratuity fund	-	-	-	-	(20,000)	(53,000)	20,000	53,000	-	-
(11.6)	2,123,852	1,809,144	456,410	361,184	3,029,457	2,392,993	1,325,099	1,127,642	6,934,818	5,690,963

11.6	Plan assets comprises as:									
	Medical				Free Gas Facility					
	2007		2006		2007		2006			
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%		
Certificates of deposits	1,959,985	92.29%	1,044,298	57.72%	405,166	88.78%	319,952	88.58%		
Cash at Bank	163,867		764,846	42.28%	51,244	11.22%	41,232	11.42%		
	2,123,852	100%	1,809,144	100%	456,410	100%	361,184	100%		
	Pension				Gratuity					
	2007		2006		2007		2006			
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%		
Defence Saving Certificates	1,035,830	34.19%	1,151,780	48.13%	268,297	20.25%	335,528	29.76%		
Mutual funds	907,261	29.95%	625,071	26.12%	426,680	32.20%	294,616	26.13%		
Certificates of deposits	50,000	1.65%	191,052	7.98%	50,000	3.77%	295,140	26.17%		
Pakistan Investment Bonds	116,000	3.83%	116,000	4.85%	28,000	2.11%	28,000	2.48%		
Cash at Bank	920,366	30.38%	309,090	12.92%	552,122	41.67%	174,358	15.46%		
	3,029,457	100%	2,392,993	100%	1,325,099	100%	1,127,642	100%		

11.7	Principal actuarial assumptions used (expressed as weighted average)									
	Medical				Free Gas Facility					
	2007		2006		2007		2006			
	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive		
Discount rate	10%	10%	9%	9%	10%	10%	9%	9%		
Expected return of growth per annum in average cost of facility	7%	7%	6%	6%	9%	9%	8%	8%		
Increase in average cost of medical facility per employee due to increase in age of recipient	2%	2%	2%	2%	0%	0%	0%	0%		
Rate of utilization of facility by future entitled employees	0%	0%	0%	0%	0%	100%	0%	100%		
Expected rate of return per annum on plan assets	9%	9%	9%	9%	9%	9%	9%	9%		
	Pension				Gratuity					
	2007		2006		2007		2006			
	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive		
Expected increase in salaries	9%	9%	8%	8%	9%	9%	8%	8%		
Discount rate	10%	10%	9%	9%	10%	10%	9%	9%		
Expected rate of return per annum on plan assets	12%	12%	12%	12%	12%	12%	12%	12%		

11.8 The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

11.9 The effect of one percentage movement in assumed medical cost trend rates would have following effects:

	2007		2006	
	One % point increase	One % point decrease	One % point increase	One % point decrease
Effect on the aggregate of the service cost and interest cost	6,095	(6,105)	3,859	(3,543)
Effect on defined benefit obligation	23,255	(75,840)	77,516	(71,169)

11.10 (Surplus) / deficit for current & previous four years are as follows:

Medical Fund					
	2007	2006	2005	2004	2003
	------(Rupees in thousand)-----				
Defined benefit obligation	2,916,228	2,343,029	2,110,414	1,868,381	1,660,734
Plan assets	(2,123,852)	(1,809,144)	(1,454,032)	-	-
Deficit	792,376	533,885	656,382	1,868,381	1,660,734
Experience adjustment on plan liabilities	241,904	(32,954)	33,941	14,651	20,358
Experience adjustment on plan assets	(11,115)	24,249	22,684	-	-
Free Gas Facility					
	2007	2006	2005	2004	2003
	------(Rupees in thousand)-----				
Defined benefit obligation	727,305	630,979	476,767	416,228	410,147
Plan assets	(456,410)	(361,184)	(290,310)	-	-
Deficit	270,895	269,795	186,457	416,228	410,147
Experience adjustment on plan liabilities	14,937	97,647	15,702	(41,065)	108,499
Experience adjustment on plan assets	11,719	4,746	4,529	-	-
Pension Fund					
	2007	2006	2005	2004	2003
	------(Rupees in thousand)-----				
Defined benefit obligation	2,516,148	2,389,599	2,112,738	1,799,314	1,630,404
Plan assets	(3,029,457)	(2,392,993)	(1,969,714)	(1,608,392)	(1,300,995)
(Surplus) / deficit	(513,309)	(3,394)	143,024	190,922	329,409
Experience adjustment on plan liabilities	(120,036)	58,657	152,721	(2,661)	368,190
Experience adjustment on plan assets	319,398	174,370	184,962	113,742	93,414
Gratuity Fund					
	2007	2006	2005	2004	2003
	------(Rupees in thousand)-----				
Defined benefit obligation	1,360,363	1,272,873	1,209,628	1,133,781	1,086,134
Plan assets	(1,325,099)	(1,127,642)	(954,101)	(773,216)	(629,331)
Deficit	35,264	145,231	255,527	360,565	456,803
Experience adjustment on plan liabilities	16,618	(2,073)	35,997	25,957	109,516
Experience adjustment on plan assets	101,723	60,144	44,661	81,084	50,482

Note **2007** **2006**
(Rupees in thousand)

11.11 The charge for the year has been allocated as follows:

Distribution cost	(30)	389,571	341,978
Administrative expenses	(31)	113,416	127,830
		502,987	469,808

	Note	2007 (Rupees in thousand)	2006
12. TRADE AND OTHER PAYABLES			
Creditors for:			
- gas	(12.1)	18,867,672	18,286,343
- supplies	(12.1)	761,254	450,655
Accrued liabilities		2,032,033	1,299,600
Interest free deposits repayable on demand		11,111	9,461
Earnest money received from contractors		25,700	28,447
Mobilization and other advances		641,749	135,265
Gas development surcharge		144,060	1,407,984
Exchange risk and guarantee fees payable to the Government of Pakistan		60,340	82,686
Workers' profit participation fund	(12.2)	223,837	297,094
Unclaimed dividend		42,836	33,755
		22,810,592	22,031,290
12.1 Related Parties:			
Creditor for gas:			
Sui Southern Gas Company Limited		1,784,242	350,569
Pirkoh Gas Company (Private) Limited		139,762	-
Pakistan Petroleum Limited		4,683,310	4,172,483
Oil and Gas Development Company Limited		4,903,683	6,378,536
Government Holdings (Private) Limited		1,532,331	1,372,504
		13,043,328	12,274,092
Creditor for supplies:			
Interstate Gas Systems (Private) Limited		10,065	15,954
Sui Southern Gas Company Limited		37,672	-
ICI Pakistan Limited		9	-
		47,746	15,954
		13,091,074	12,290,046
12.2 Workers' profit participation fund			
Balance at the beginning of the year		297,094	252,924
Allocation for the year	(34)	223,690	269,427
		520,784	522,351
Interest on funds utilized in the Company's business	(33)	60	61
		520,844	522,412
Less: Payments to workers Deposited into the Government treasury		390 296,617	500 224,818
		297,007	225,318
		223,837	297,094

	Note	2007 (Rupees in thousand)	2006
13. CURRENT PORTION OF LONG TERM FINANCING			
Long term financing - secured	(6)	1,286,584	1,524,587
Long term financing - unsecured	(7)	994,659	1,035,063
		2,281,243	2,559,650

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 2002-2003 and tax year 2003 which on similar basis as used in the past by the tax authorities would amount to Rs. 376,896 thousand (2006: Rs. 413,968 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. 1,096,333 thousand (2006: Rs. 1,151,379 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

14.1.2 The Company furnished indemnity bonds to the Collector of Customs to avail the exemption under SRO 367(I)/94 in respect of custom duty and sales tax on certain imported items amounting to Rs. 494,959 thousand (2006: 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. 428,457 thousand (2006: Rs. 356,383 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. 381,113 thousand (2006: Rs. 453,232 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 (2006: Rs. 76,579 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. 255,200 thousand (2006: Rs. 255,200 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. 1,697,786 thousand (2006: Rs. 677,481 thousand).
- b) Letters of credit for capital and other expenditure amount to Rs. 3,624,201 thousand (2006: Rs. 1,761,779 thousand).

15. FIXED ASSETS

	Note	2007 (Rupees in thousand)	2006
Property, plant and equipment			
Operating assets	(15.1)	43,523,023	38,159,327
Capital work in progress	(15.2)	6,513,194	5,402,146
		50,036,217	43,561,473
Intangible assets	(15.1)	17,713	6,720
		50,053,930	43,568,193

15.1 Reconciliation of the carrying amounts at the beginning and end of the year is as follows:

2007															
Freehold land	Leasehold land	Buildings and civil construction on freehold land	Buildings on leasehold land	Transmission system	Distribution system	Consumer meter and town border stations	Telecommunication system and facilities	Compressor stations and equipment	Plant and machinery	Furniture and equipment	Loose tools	Transport vehicles	Total operating assets	Intangible assets	
Rupees in thousand															
At July 01, 2006															
Cost	577,190	392	845,631	8,461	32,624,609	19,175,446	9,025,133	2,132,706	4,560,403	2,876,530	319,199	112,086	746,622	73,004,408	6,720
Accumulated Depreciation	-	-	519,110	8,461	15,117,153	7,903,563	3,730,695	2,008,747	2,387,218	2,288,353	219,039	81,037	581,705	34,845,081	-
Net book value	577,190	392	326,521	-	17,507,456	11,271,883	5,294,438	123,959	2,173,185	588,177	100,160	31,049	164,917	38,159,327	6,720
Movement during the year															
Opening net book value	577,190	392	326,521	-	17,507,456	11,271,883	5,294,438	123,959	2,173,185	588,177	100,160	31,049	164,917	38,159,327	6,720
Additions - cost	81,778	-	32,737	-	2,673,804	4,750,919	1,304,100	74,745	721,082	151,543	81,053	12,986	65,545	9,950,292	19,849
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	-	30,147	-	35,658	1,700	-	66,867	4,619	-	30,802	169,793	-
Depreciation	-	-	-	-	30,012	-	35,658	1,700	-	64,200	4,252	-	30,802	166,624	-
	-	-	-	-	135	-	-	-	-	2,667	367	-	-	3,169	-
Depreciation / Amortization charge for the year	-	-	38,456	-	1,601,584	1,157,792	1,112,397	65,449	291,299	180,852	34,341	24,248	77,009	4,583,427	8,856
Closing net book value	658,968	392	320,802	-	18,579,541	14,865,010	5,486,141	133,255	2,602,968	556,201	146,505	19,787	153,453	43,523,023	17,713
At June 30, 2007															
Cost	658,968	392	878,368	8,461	35,268,266	23,926,365	10,293,575	2,205,751	5,281,485	2,961,206	395,633	125,072	781,365	82,784,907	26,569
Accumulated Depreciation / Amortization	-	-	557,566	8,461	16,688,725	9,061,355	4,807,434	2,072,496	2,678,517	2,405,005	249,128	105,285	627,912	39,261,884	8,856
Net book value	658,968	392	320,802	-	18,579,541	14,865,010	5,486,141	133,255	2,602,968	556,201	146,505	19,787	153,453	43,523,023	17,713
Depreciation rates (%)	-	-	6	6	6-10	6	6-10	15	6-9	10-20	15-20	33.33	25		33.33
2006															
Freehold land	Leasehold land	Buildings and civil construction on freehold land	Buildings on leasehold land	Transmission system	Distribution system	Consumer meter and town border stations	Telecommunication system and facilities	Compressor stations and equipment	Plant and machinery	Furniture and equipment	Loose tools	Transport vehicles	Total operating assets	Intangible assets	
Rupees in thousand															
At July 01, 2005															
Cost	493,496	392	813,825	8,461	31,790,706	16,372,518	8,035,692	2,130,091	4,204,500	2,748,271	268,649	110,555	701,186	67,678,342	-
Accumulated Depreciation	-	-	483,203	8,461	13,442,341	6,937,872	3,020,830	1,824,769	2,186,220	2,157,306	193,936	56,383	521,006	30,832,327	-
Net book value	493,496	392	330,622	-	18,348,365	9,434,646	5,014,862	305,322	2,018,280	590,965	74,713	54,172	180,180	36,846,015	-
Movement during the year															
Opening net book value	493,496	392	330,622	-	18,348,365	9,434,646	5,014,862	305,322	2,018,280	590,965	74,713	54,172	180,180	36,846,015	-
Additions - cost	83,694	-	35,265	-	891,675	2,806,781	1,116,850	4,712	358,971	169,486	53,452	733	69,675	5,591,294	6,720
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	-	57,772	3,634	127,627	2,171	3,068	43,815	2,902	-	24,239	265,228	-
Depreciation	-	-	-	-	57,772	109	72,791	2,168	3,068	43,812	2,297	-	23,357	205,374	-
	-	-	-	-	-	3,525	54,836	3	-	3	605	-	882	59,854	-
Depreciation / Amortization charge for the year	-	-	35,907	-	1,732,584	965,800	782,656	186,146	204,066	174,859	27,400	24,654	84,056	4,218,128	-
Closing net book value	577,190	392	329,980	-	17,507,456	11,272,102	5,294,220	123,885	2,173,185	585,589	100,160	30,251	164,917	38,159,327	6,720
At June 30, 2006															
Cost	577,190	392	849,090	8,461	32,624,609	19,175,665	9,024,915	2,132,632	4,560,403	2,873,942	319,199	111,288	746,622	73,004,408	6,720
Accumulated Depreciation	-	-	519,110	8,461	15,117,153	7,903,563	3,730,695	2,008,747	2,387,218	2,288,353	219,039	81,037	581,705	34,845,081	-
Net book value	577,190	392	329,980	-	17,507,456	11,272,102	5,294,220	123,885	2,173,185	585,589	100,160	30,251	164,917	38,159,327	6,720
Depreciation rates (%)	-	-	6	6	6-10	6	6-10	15	6-9	10-20	15-20	33.33	25		

- Land amounting to Rs.504,837 thousand (2006: Rs.463,249 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.29,771 thousand (2006: Rs. 57,772 thousand) having Rs. NIL book value.
- The cost of the assets as on June 30, 2007 include fully depreciated assets amounted to Rs. 12,776,570 thousand (2006: Rs.10,111,223 thousand).

Note **2007** 2006
(Rupees in thousand)

15.1.1 The depreciation charge for the year has been allocated as follows:

Distribution cost	(30)	4,333,989	3,978,547
Administrative expenses	(31)	105,634	87,370
Transmission system		78,899	46,904
Distribution system		44,678	35,568
Capital work in progress		20,227	69,739
		143,804	152,211
		4,583,427	4,218,128

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

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
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----- (Rupees) -----

Transmission mains - Fabrica unit	375,965	241,269	134,696	512	Tender	Mr. Maqsood s/o Shah ud din, Multan
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Book value of all other assets disposed of during the year was less than Rs. 50,000.

15.1.3 The amortization of intangible assets of Rs. 8,856 thousand (2006: NIL) is included in administrative expenses.

Note **2007** 2006
(Rupees in thousand)

15.2 Capital work in progress

Transmission system		586,767	610,411
Distribution system		2,741,444	2,137,906
Stores and spare parts held for capital expenditure	(15.2.1)	3,019,222	2,480,505
Advances for land and other capital expenditure		165,761	173,324
		6,513,194	5,402,146

	Note	2007 (Rupees in thousand)	2006
15.2.1 Stores and spare parts held for capital expenditure			
Stores and spare parts including in transit Rs. 175,889 thousand (2006: Rs. 172,014 thousand)		3,035,187	2,496,878
Less: Provision for obsolescence		15,965	16,373
		3,019,222	2,480,505

16. INVESTMENT IN ASSOCIATE

Inter State Gas Systems (Private) Limited 490,000 (2006: 490,000) ordinary shares of Rs 10 each	(16.1)	4,978	4,900
		4,978	4,900

16.1 Reconciliation of carrying amount of investment in associate:

Opening balance		4,900	4,900
Share of profit for the year before tax		485	-
Share of tax		(407)	-
		78	-
		4,978	4,900

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

Assets		40,151	48,113
Liabilities		29,992	38,113
Net Assets		10,159	10,000
% of interest held		49	49

17. LONG TERM LOANS - CONSIDERED GOOD

Note	House building		Car		Motorcycle/ Scooter		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
------(Rupees in thousand)-----								
Due from:								
Executives	4,186	5,495	99	118	-	-	4,285	5,613
Other employees	262,752	252,833	551	1,198	24,144	11,787	287,447	265,818
	266,938	258,328	650	1,316	24,144	11,787	291,732	271,431
Amount due within one year:								
Executives (21)	1,648	1,625	44	57	-	-	1,692	1,682
Other employees (21)	57,009	52,242	434	638	10,287	7,386	67,730	60,266
	58,657	53,867	478	695	10,287	7,386	69,422	61,948
	208,281	204,461	172	621	13,857	4,401	222,310	209,483
Reconciliation of balance due from executives:								
Opening balance	5,495	7,564	118	222	-	-	5,613	7,786
Disbursements	535	-	42	-	-	-	577	-
	6,030	7,564	160	222	-	-	6,190	7,786
Repayments / Adjustments	1,844	2,069	61	104	-	-	1,905	2,173
Closing balance	4,186	5,495	99	118	-	-	4,285	5,613

House building and car loans are repayable in 10 years, while motorcycle/ scooter loans are repayable in 3 years. Interest from 1% to 10% (2006: 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 and executives at any month end during the year was Rs. NIL (2006: Rs. Nil) and Rs. 6,031 thousand (2006: Rs. 7,598 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.

	2007	2006
	Rate	
Effective interest rates	6.84% to 18%	6.84% to 18%

Note	2007	2006
	(Rupees in thousand)	
Security deposits	3,527	3,550
Prepayments	14,826	14,572
	18,353	18,122
Less: Current portion of prepayments	10,715	9,818
Provision against prepayments	1,232	1,231
	11,947	11,049
	6,406	7,073

19. STORES AND SPARE PARTS

Stores including in transit Rs. 78,131 thousand (2006: Rs. 72,995 thousand)	661,295	641,150
Spare parts including in transit Rs. 85,619 thousand (2006: Rs. 177,094 thousand)	434,538	550,280
	1,095,833	1,191,430
Less: Provision for obsolescence	6,307	7,290
	1,089,526	1,184,140

	Note	2007 (Rupees in thousand)	2006
20. TRADE DEBTS			
Considered good:			
Related parties	(20.1)	533,587	361,767
Others		15,622,043	14,064,665
Accrued gas sales		73,437	91,104
		16,229,067	14,517,536
Considered doubtful:			
Others		1,122,774	975,688
		17,351,841	15,493,224
Less: Provision for doubtful debts	(20.2)	1,122,774	975,688
		16,229,067	14,517,536
20.1 Related parties:			
Nishat Mills Limited		101,421	76,923
Sui Southern Gas Company Limited		16,284	5,242
ICI Pakistan Limited		74,376	53,391
Packages Limited		59,780	59,535
Dawood Hercules Chemicals Limited		178,031	166,676
D.G. Khan Cement Company Limited		77,707	-
Mustehkum Cement Company Limited		25,988	-
		533,587	361,767
20.2 Provision for doubtful debts			
Balance as on July 01		975,688	1,249,621
Provision during the year		147,086	173,603
		1,122,774	1,423,224
Less:			
Provision relating to debtors written off		-	447,536
		1,122,774	975,688
21. LOANS AND ADVANCES			
Loans due from employees:			
Executives	(17)	1,692	1,682
Other employees	(17)	67,730	60,266
		69,422	61,948
Advances to other employees - considered good		2,012	3,031
Advances to suppliers and contractors		113,207	20,359
Less: Provision for doubtful receivables		3,227	3,227
		109,980	17,132
		181,414	82,111
Related party:			
BOC (Pakistan) Limited		220	-
		220	-

	Note	2007 (Rupees in thousand)	2006
22. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits and prepayments		44,868	45,629
Less: Provision for doubtful receivables		22,290	23,521
		22,578	22,108
Current portion of prepayments	(18)	10,715	9,818
		33,293	31,926
23. ACCRUED INTEREST			
Related parties:			
Habib Bank Limited		-	274
Prime Commercial Bank Limited		3,246	-
Askari Bank Limited (Formerly Askari Commercial Bank Limited)		3	-
		3,249	274
Others		69,507	60,486
		72,756	60,760
24. OTHER RECEIVABLES			
Exchange differences on long term loans recoverable from the Government of Pakistan		1,293,164	966,827
Excise duty recoverable	(24.1)	108,945	108,945
Less: Provision for doubtful recoverable		108,945	108,945
		-	-
Accumulated compensated absences	(24.2)	21,028	4,432
Others		26,042	9,391
		1,340,234	980,650
24.1 Included is an amount of Rs. 7,320 thousand (2006: Rs. 7,230 thousand) relating to Dawood Hercules Chemicals Limited (a related party).			
24.2 Reconciliation of receivable from employee benefit plan:			
Fair value of plan assets	(24.5)	185,870	165,522
Present value of funded obligations	(24.4)	164,842	161,090
	(24.8)	21,028	4,432

	Note	2007 (Rupees in thousand)	2006
24.3 Movement in net asset / (liability)			
Opening asset / (liability)		4,432	(3,464)
Charge for the year	(24.3.1)	3,221	(3,158)
Contribution paid		13,375	11,054
		21,028	4,432

24.3.1 Amounts recognized in profit and loss account are as follows:

Current service cost	9,810	9,311
Interest on obligation	14,498	13,777
Expected return on plan assets	(14,897)	(13,466)
Net actuarial losses / (gains) recognized in the year	(12,632)	(6,464)
Total included in employee benefit expense	(3,221)	3,158
Actual return on plan assets	20,348	15,905

24.4 Changes in the present value of defined benefit obligation are as follows:

Opening defined benefit obligation	161,090	153,081
Service cost	9,810	9,311
Interest cost	14,498	13,777
Actuarial losses / (gains)	(7,181)	(4,025)
Benefits paid	(13,375)	(11,054)
Closing defined benefit obligation	164,842	161,090

24.5 Changes in the fair value of plan assets are as follows:

Opening fair value of plan assets	165,522	149,617
Expected return	14,897	13,466
Actuarial gains / (losses)	5,451	2,439
Contributions by employer	13,375	11,054
Benefits paid	(13,375)	(11,054)
	185,870	165,522

24.6 Plan assets comprises as:

	2007		2006	
	Fair Value (Rs. In 000)	%	Fair Value (Rs. In 000)	%
Certificates of deposits	185,612	99.86%	164,887	99.62%
Cash at Bank	258	0.14%	635	0.38%
	185,870	100%	165,522	100%

24.7 Principal actuarial assumptions used (expressed as weighted average)

	2007		2006	
	Executive	Non Executive	Executive	Non Executive
Discount rate	10%	10%	9%	9%
Expected return of salary increase	9%	9%	8%	8%

24.8 Surplus / (deficit) for current and previous four years is as follows:

	2007	2006	2005	2004	2003
	----- (Rupees in thousand) -----				
Fair value of plan assets	185,870	165,522	149,617	-	-
Defined benefit obligation	164,842	161,090	153,081	147,283	138,573
Surplus / (deficit)	21,028	4,432	(3,464)	(147,283)	(138,573)
Experience adjustment on plan liabilities	(7,181)	(4,025)	(11,545)	1,944	8,918
Experience adjustment on plan assets	5,451	2,439	2,334	-	-
		Note	2007 (Rupees in thousand)	2006	

25. CASH AND BANK BALANCES

Cash at bank and in hand	(25.1)	13,046,228	15,400,518
Short term bank deposits	(25.2)	500,000	-
		13,546,228	15,400,518

25.1 Cash at bank and in hand

Cash at banks			
On deposits, including Rs. 18,686 thousand (2006: Rs. 16,569 thousand) in special account and cheques under clearance of Rs. NIL (2006: Rs. 496,690 thousand) (25.2& 25.3)		12,887,836	15,061,964
On current accounts, including remittances in transit and cheques under clearance of Rs. 138,933 thousand (2006: Rs.331,672 thousand)		157,279	337,446
		13,045,115	15,399,410
Cash in hand		1,113	1,108
		13,046,228	15,400,518

25.2 This represents term deposit maintained with Prime Commercial Bank Limited for the period of six months (but encashable on demand) at a rate of 11.85% per annum. Rate of profit on other bank deposits ranges from 3 % to 11.85 % (2006: 0.50 % to 11.50 %) per annum.

Note 2007
(Rupees in thousand) 2006

25.3 Balance with related parties:

Askari Bank Limited (Formerly Askari Commercial Bank Limited)	1,630,325	7
Prime Commercial Bank Limited	568,614	1,058,773
Bank Al-Habib Limited	8,078	17,350
Faysal Bank Limited	2,794	697
	2,209,811	1,076,827

26. GAS SALES

Gross sales	137,187,372	122,594,490
Less: Sales tax	15,095,426	14,696,821
Discount	294	378
	15,095,720	14,697,199
	122,091,652	107,897,291

27. COST OF GAS SOLD

Opening stock of gas in pipelines	445,772	346,382
Gas purchases:		
Southern system	81,326,087	79,546,977
Northern system	9,728,104	8,834,096
Cost equalization adjustment (27.1)	10,143,974	5,346,011
	101,198,165	93,727,084
	101,643,937	94,073,466
Less: Gas internally consumed	2,002,283	1,641,376
Closing stock of gas in pipelines	473,404	445,772
	2,475,687	2,087,148
Cost of gas sold	99,168,250	91,986,318

27.1 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	2007 (Rupees in thousand)	2006
28. RENTAL AND SERVICE INCOME			
Transmission charges exclusive of sales tax of Rs. 1,337 thousand (2006: Rs. 1,178 thousand)		9,283	7,851
Meter rental exclusive of sales tax of Rs. 109,040 thousand (2006: Rs. 99,537 thousand)		726,935	663,578
Testing and reconnection charges		11,457	10,140
Income from repair work		80,465	63,386
		828,140	744,955
29. SURCHARGE AND INTEREST ON GAS SALES ARREARS			
Interest on gas sales arrears	(29.1)	294,893	234,344
Surcharge on late payments	(29.2)	378,348	300,126
		673,241	534,470
29.1	Interest on gas sales arrears at the rate of 1.5% (2006: 1.5%) per month upto one year and thereafter 2% (2006: 2%) per month is charged on over due amounts.		
29.2	One time late payment surcharge is charged on over due amounts at the rate of 10% (2006: 10%) per annum.		
30. DISTRIBUTION COST			
Salaries, wages and benefits	(11.11 & 30.1)	2,648,190	2,529,388
Employees medical and welfare	(11.11)	345,227	307,510
Stores and spares consumed		279,693	223,969
Fuel and power		1,971,878	1,587,463
Repairs and maintenance		350,168	258,003
Rent, rates, electricity and telephone		137,324	83,452
Insurance		133,698	126,504
Travelling		88,911	62,487
Stationery and postage		38,852	26,311
Dispatch of gas bills		20,647	20,857
Transportation charges		247,841	202,030
Provision for doubtful debts		147,088	173,603
Provision for doubtful receivables		-	13,188
Professional services		3,298	991
Gathering charges of gas bills collection data		21,779	20,412
Stores and spares written off	(30.2)	-	42,068
Gas bills collection charges		212,329	195,136
Security expenses		94,461	169,224
Service charges	(30.3)	82,100	54,529
Advertisement		58,671	33,192
Depreciation	(15.1.1)	4,333,989	3,978,547
Others		65,829	100,522
		11,281,973	10,209,386
Less: Allocated to fixed capital expenditure		589,912	582,310
		10,692,061	9,627,076

30.1 Included in salaries, wages and benefits is Rs. 61,363 thousand (2006: Rs. 63,008 thousand) against the Company's contribution to employees provident fund.

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

30.3 This includes payment of Rupees 81,573 (2006: Rupees 54,529) to Inter State Gas Systems (Private) Limited (an associated undertaking).

	Note	2007 (Rupees in thousand)	2006
31. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	(11.11 & 31.1)	894,801	804,908
Employees medical and welfare	(11.11)	103,359	86,917
Stores and spares consumed		33,580	31,480
Fuel and power		17,024	13,719
Repairs and maintenance		31,100	44,550
Rent, rates, electricity and telephone		24,668	19,350
Insurance		7,640	8,509
Travelling		24,973	16,895
Stationery and postage		23,068	16,079
Transportation charges		22,530	30,577
Professional services	(31.2)	26,363	24,982
Loans to deceased employees written off		67	44
Security expenses		15,914	13,590
OGRA fee and expenses		77,236	69,929
Advertisement		1,281	322
Depreciation	(15.1.1)	105,634	87,370
Amortization	(15.1.3)	8,856	-
Others		41,420	47,529
		1,459,514	1,316,750
Less: Allocated to fixed capital expenditure		146,531	143,890
		1,312,983	1,172,860

31.1 Included in salaries, wages and benefits is Rs. 19,880 thousand (2006: Rs. 20,172 thousand) against the Company's contribution to employees provident fund.

	Note	2007 (Rupees in thousand)	2006
31.2 Professional services			
The charges for professional services include the following in respect of:			
Statutory audit:			
Ford Rhodes Sidat Hyder & Co.		325	325
Riaz Ahmad & Co.		325	325
		650	650
Other certifications including half yearly review:			
Ford Rhodes Sidat Hyder & Co.		169	965
Riaz Ahmad & Co.		180	690
		349	1,655
Out of pocket expenses:			
Ford Rhodes Sidat Hyder & Co.		175	175
Riaz Ahmad & Co.		175	175
		350	350
		1,349	2,655

32. OTHER OPERATING INCOME

Income from financial assets			
Interest on staff loans		26,437	26,375
Return on bank deposits		1,417,996	1,124,505
Gain on initial recognition of financial liabilities at fair value		111,240	93,230
		1,555,673	1,244,110
Income from assets other than financial assets			
Net gain on sale of fixed assets		26,366	24,722
Insurance claims	(32.1)	1,694	2,474
		28,060	27,196
Others			
Compensation on delayed refund from tax department	(32.2)	-	367,781
Sale of tender documents		947	735
Sale of scrap		46,546	42,654
Credit balances written back		65,606	2,078
Liquidated damages recovered		46,203	14,107
Gain on construction contracts		47,544	78,266
Bad debt recoveries		53,009	29,782
Exchange gain on gas purchases		11,183	-
Miscellaneous		347	21,690
		271,385	557,093
		1,855,118	1,828,399

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

32.2 This represents statutory compensation of Rupees NIL (2006: 367,781 thousand) on account of delayed refunds under Section 102 of the repealed Income Tax Ordinance, 1979.

	Note	2007 (Rupees in thousand)	2006
33. FINANCE COST			
Mark-up/ interest/ commitment charges on:			
Long term financing:			
- Secured		286,903	393,779
- Unsecured		283,851	422,063
Security deposits		100,161	115,749
Workers' profit participation fund	(12.2)	60	61
		670,975	931,652
Exchange risk coverage fee		189,740	248,551
		860,715	1,180,203

34. OTHER OPERATING CHARGES

Workers' profit participation fund	(12.2)	223,690	269,427
Exchange loss on gas purchases		-	31,505
Loss on initial recognition of financial assets at fair value		16,855	18,931
Donations	(34.1)	779	26,437
		241,324	346,300

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

35. TAXATION

Current year			
Current		1,107,566	1,515,702
Deferred	(10.1)	705,578	(65,260)
		1,813,144	1,450,442
Prior year			
Current		(241,837)	(53,626)
		1,571,307	1,396,816

35.1 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		0.62	3.99
Others		7.04	(10.65)
Effect of changes in prior years tax		(5.69)	(1.05)
		1.97	(7.71)
Average effective tax rate charged to profit and loss account		36.97	27.29

	Note	2007 (Rupees in thousand)	2006
36. CASH GENERATED FROM OPERATIONS			
Profit before taxation and share of associate		4,249,572	5,119,060
Adjustment for non-cash charges and other items:			
Depreciation		4,439,623	4,065,917
Amortization of intangible assets		8,856	-
Employee benefits		450,357	423,707
Amortization of deferred credit		(591,354)	(472,879)
Net gain on sale of fixed assets		(26,366)	(24,722)
Finance cost		860,715	1,180,203
Return on bank deposits		(1,417,996)	(1,124,505)
Provision for doubtful debts		147,088	173,603
Provision for doubtful receivables		-	13,188
Stores and spares written off		-	42,068
Gain on initial recognition of financial liabilities at fair value		(111,240)	(93,230)
Loss on initial recognition of financial assets at fair value		16,855	18,931
Interest income/ expense due to impact of IAS- 39		(16,343)	(15,908)
Working capital changes	(36.1)	(971,575)	2,767,624
		7,038,192	12,073,057

36.1 Working capital changes

(Increase)/ decrease in current assets:			
Stores and spare parts		94,614	(473,156)
Stock in trade - gas in pipelines		(27,632)	(99,390)
Trade debts		(1,858,618)	(495,908)
Loans and advances		(91,829)	33,383
Trade deposits and short term prepayments		(1,367)	40,215
Other receivables		120,690	(1,207,638)
		(1,764,142)	(2,202,494)
Increase/ (decrease) in current liabilities:			
Trade and other payables		792,567	4,970,118
		(971,575)	2,767,624

37. 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	
	2007	2006	2007	2006
Number of persons	1	1	125	123
	----- (Rupees in Thousand) -----			
Managerial remuneration	3,526	3,526	106,440	103,912
Contribution to provident, pension and gratuity fund	-	-	26,716	31,174
Housing and utilities	1,616	1,616	52,665	54,737
Leave encashment	-	-	3,092	1,470
Club subscription	4	4	54	61
	5,146	5,146	188,967	191,354

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 (2006: fourteen) directors is Rs. 43.5 thousand (2006: Rs. 38 thousand). No other remuneration/compensation is paid to directors during the year.

38. 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	2007 (Rupees in thousand)	2006
Associated company	Services	(30.3)	81,573	54,529
Other related parties	Gas sales		4,776,925	3,946,267
	Purchase of materials		843,373	749,127
	Purchase of gas		45,095,172	67,893,488
	Profit received on bank deposits		229,874	183,811
	Insurance expense		165,755	153,374
	Insurance claimed received		28,922	38,446
Post employment benefit plans	Contribution to defined contribution plans	(38.1)	85,503	83,180
	Contribution to defined benefit plans	(38.1)	225,272	238,407

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

39. UNUTILIZED CREDIT FACILITIES

The Company has the facilities for opening of letters of credit amounting to Rupees 3,598,000 thousand (2006: Rupees 2,522,786 thousand) out of which Rupees NIL (2006: Rupees 764,207 thousand) remained unutilized at the end of the year.

40. CAPACITY AND ACTUAL PERFORMANCE

The average daily gas transmitted during the year was 492,925 hm³ (2006: 482,863 hm³) against the designed capacity of 459,234 hm³ (2006: 459,234 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.

41. EARNINGS PER SHARE - BASIC AND DILUTED

		Note	2007	2006
Net profit for the year	Rupees in thousand		2,678,343	3,722,244
Average ordinary shares in issue	Number of shares	(5)	549,105,339	549,105,339
Basic earnings per share	Rupees		4.88	6.78

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.

42. FINANCIAL INSTRUMENTS

	Maturity up to one year		Interest / mark-up bearing		Maturity after five year		Maturity upto one year		Non interest / mark-up bearing		Maturity after five years		Total
	Maturity after one year but less than five years		Maturity after one year but less than five years		Maturity after one year but less than five years		Maturity after one year but less than five years		Maturity after one year but less than five years		Maturity after one year but less than five years		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
Financial assets													
Long term loans	69,422	61,948	108,069	110,551	114,241	98,932	-	-	-	-	-	-	291,732
Long term deposits	-	-	-	-	-	-	-	-	-	-	-	-	3,527
Trade debts	-	-	-	-	-	-	17,351,841	15,493,224	-	-	-	3,550	17,351,841
Accrued interest	-	-	-	-	-	-	72,756	60,760	-	-	-	-	72,756
Trade deposits	-	-	-	-	-	-	13,641	12,684	-	-	-	-	13,641
Other receivables	-	-	-	-	-	-	1,298,362	1,085,163	-	-	-	-	1,298,362
Cash and bank balances	13,387,836	15,061,964	-	-	-	-	158,392	338,554	-	-	-	-	13,546,228
	13,457,258	15,123,912	108,069	110,551	114,241	98,932	18,894,992	16,990,385	-	-	3,527	3,550	32,578,087
Off balance sheet													
	-	-	-	-	-	-	-	-	-	-	-	-	-
Total financial assets	13,457,258	15,123,912	108,069	110,551	114,241	98,932	18,894,992	16,990,385	-	-	3,527	3,550	32,578,087
Financial liabilities													
Long term financing													
- Secured	1,286,584	1,524,587	662,500	1,949,084	-	-	-	-	-	-	-	-	1,949,084
- Unsecured	994,659	1,035,063	3,150,683	4,149,755	559,498	1,324,341	-	-	-	-	-	-	4,704,840
Security deposits	-	-	-	-	4,597,090	5,848,427	-	-	-	-	2,673,317	17,352	7,270,407
Trade and other payables	-	-	-	-	-	-	22,442,695	19,026,612	-	-	-	-	22,442,695
Accrued mark-up / Interest	-	-	-	-	-	-	467,452	548,217	-	-	-	-	467,452
	2,281,243	2,559,650	3,813,183	6,098,839	5,156,588	7,172,768	22,910,147	19,574,829	-	-	2,673,317	17,352	36,834,478
Off balance sheet													
	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments													
Letters of credit	-	-	-	-	-	-	1,697,786	677,481	-	-	-	-	1,697,786
	-	-	-	-	-	-	3,624,201	1,761,779	-	-	-	-	3,624,201
	-	-	-	-	-	-	5,321,987	2,439,260	-	-	-	-	5,321,987
Total financial liabilities	2,281,243	2,559,650	3,813,183	6,098,839	5,156,588	7,172,768	28,232,134	22,014,089	-	-	2,673,317	17,352	42,156,465
On balance sheet gap	11,176,015	12,564,262	(3,705,114)	(5,988,288)	(5,042,347)	(7,073,836)	(4,015,155)	(2,584,444)	-	-	(2,669,790)	(13,802)	(4,256,391)
Off balance sheet gap	-	-	-	-	-	-	(5,321,987)	(2,439,260)	-	-	-	-	(5,321,987)

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

42.1 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. 32,578,087 thousand (2006: Rs. 32,327,330 thousand), the financial assets which are subject to credit risk amounted to Rs. 20,296,990 thousand (2006: Rs. 16,834,105 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.

42.2 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.

43. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on September 25, 2007 by the Board of Directors of the Company.

44. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on September 25, 2007 has proposed a cash dividend in respect of the year ended June 30, 2007 of Rs. 3.00 per share (2006: Rs. 3.00 per share) and NIL bonus share (2006: 10%) in respect of the year ended June 30, 2007. 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.

45. CORRESPONDING FIGURES

Corresponding figures have been rearranged, where necessary, for the purpose of comparison. However, no significant reclassification has been made.



A. RASHID LONE
Chief Executive



ARIF SAEED
Director

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FORM OF PROXY

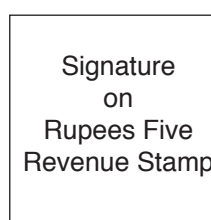
SUI NORTHERN GAS PIPELINES LIMITED

Gas House, 21-Kashmir Road, P.O. Box No. 56, Lahore-54000 Pakistan
Ph: 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 44th Annual General Meeting of
the Company to be held on Tuesday, October 30, 2007 at 10:30 a.m. and at any adjournment thereof.

Signed this _____ day of _____ 2007.



(Signature should be 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