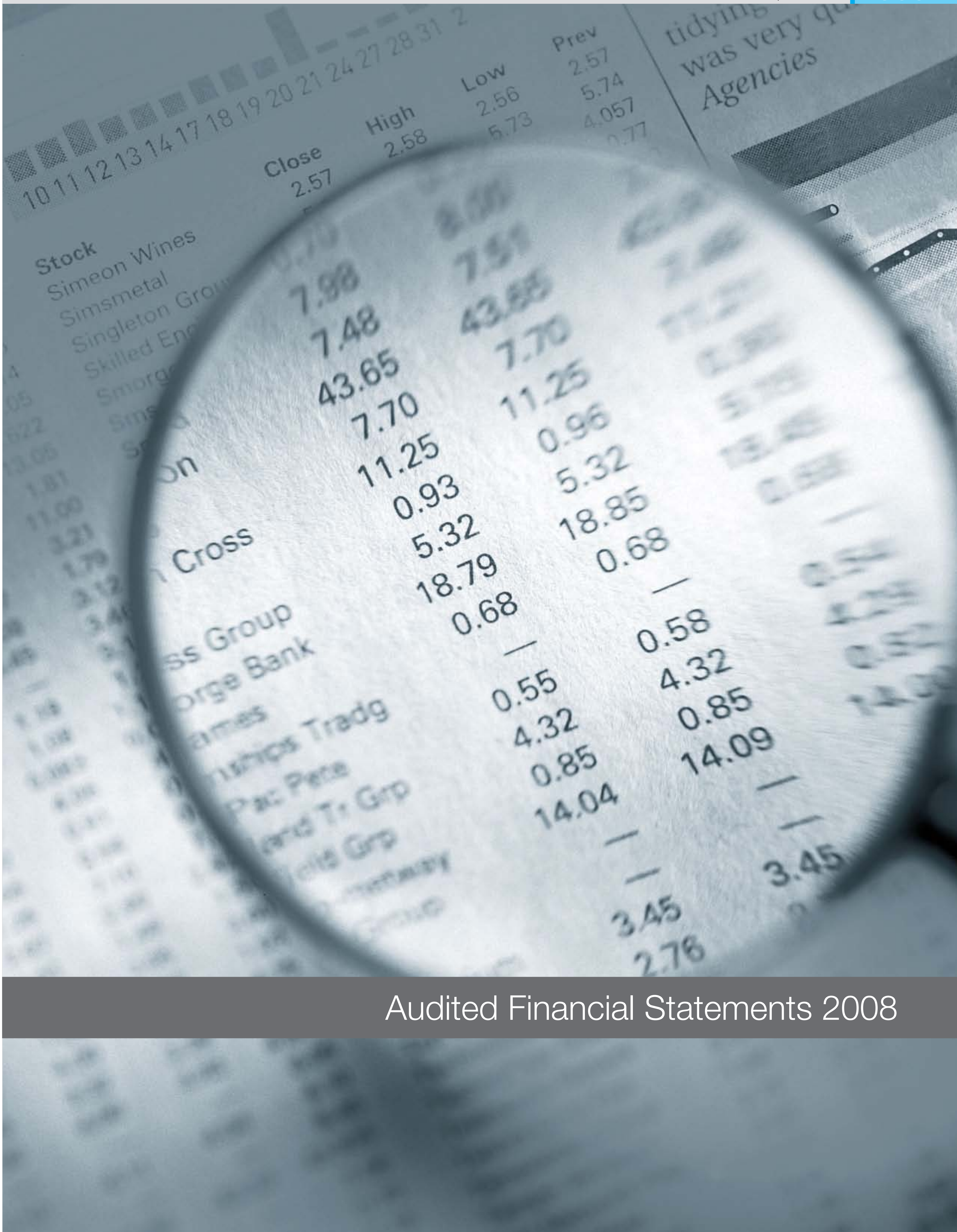

Audited Financial Statements 2008

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 to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange 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 as applicable to the Company for the year ended 30 June 2008.

FORD RHODES SIDAT HYDER AND COMPANY
CHARTERED ACCOUNTANTS

RIAZ AHMAD AND COMPANY
CHARTERED ACCOUNTANTS

LAHORE: 27 September 2008

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of SUI NORTHERN GAS PIPELINES LIMITED as at 30 June 2008 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 account and are further in accordance with accounting policies consistently applied;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 30 June 2008 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 4.19 to the financial statements, which explains that during the year ended 30 June 2008, the Company's return before taxation, interest and other charges on debts is less than minimum required return.

FORD RHODES SIDAT HYDER AND COMPANY	RIAZ AHMAD AND COMPANY
CHARTERED ACCOUNTANTS	CHARTERED ACCOUNTANTS

LAHORE: 27 September 2008

Balance Sheet

As at 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
Share capital and Reserves			
Authorized share capital			
1,500,000,000 (2007: 1,500,000,000)			
ordinary shares of Rupees 10 each		15,000,000	15,000,000
Issued, subscribed and paid up capital	5	5,491,053	5,491,053
Revenue reserves		11,647,796	10,798,422
Total equity		17,138,849	16,289,475
Non-current liabilities			
Long term financing:			
Secured	6	62,500	662,500
Unsecured	7	2,717,963	3,710,181
Security deposits	8	9,068,102	7,270,407
Deferred credit	9	31,386,548	23,108,412
Deferred taxation	10	7,562,412	6,752,570
Employee benefits	11	336,667	331,754
		51,134,192	41,835,824
Current liabilities			
Trade and other payables	12	27,416,384	22,810,592
Interest / markup accrued	13	396,323	467,452
Current portion of long term financing	14	1,561,895	2,281,243
		29,374,602	25,559,287
Total liabilities		80,508,794	67,395,111
TOTAL EQUITY AND LIABILITIES		97,647,643	83,684,586
Contingencies and commitments	15	–	–

The annexed notes 1 to 51 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

	Note	2008	2007
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Property, plant and equipment	16	62,165,176	50,036,217
Intangible assets	17	29,441	17,713
Investment in an associate company	18	4,900	4,978
Long term loans	19	224,645	222,310
Employee benefits	20	357,140	54,756
Long term deposits and prepayments	21	7,138	6,406
		62,788,440	50,342,380
Current assets			
Stores and spare parts	22	2,287,084	1,089,526
Stock in trade – gas in pipelines		525,370	473,404
Trade debts	23	18,757,385	16,229,067
Loans and advances	24	148,403	181,414
Trade deposits and short term prepayments	25	95,428	33,293
Interest accrued	26	40,988	72,756
Other receivables	27	2,235,441	1,319,206
Taxation – net	28	764,521	134,079
Sales tax recoverable		1,356,339	263,233
Short term investments	29	511,096	–
Cash and bank balances	30	8,137,148	13,546,228
		34,859,203	33,342,206
TOTAL ASSETS		97,647,643	83,684,586

ARIF SAEED
Director

Profit and Loss Account

For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
Gas sales	31	123,404,537	122,091,652
Add / (Less): Differential margin / (Gas development surcharge)		750,496	(9,514,600)
		124,155,033	112,577,052
Cost of gas sold	32	109,107,461	99,168,250
Gross profit		15,047,572	13,408,802
Rental and service income	33	916,351	828,140
Surcharge and interest on gas sales arrears	34	703,328	673,241
Amortization of deferred credit	9	790,289	591,354
		2,409,968	2,092,735
		17,457,540	15,501,537
Operating expenses:			
Distribution cost	35	11,797,778	10,692,061
Administrative expenses	36	1,379,080	1,312,983
		13,176,858	12,005,044
		4,280,682	3,496,493
Other operating expenses	37	957,194	241,324
		3,323,488	3,255,169
Other operating income	38	1,446,568	1,855,118
Operating profit		4,770,056	5,110,287
Finance cost	39	789,247	860,715
Profit before taxation and share from associate		3,980,809	4,249,572
Share in profit of associate - before tax	18	422	485
Profit before taxation		3,981,231	4,250,057
Taxation	40	1,484,541	1,571,714
Profit after taxation		2,496,690	2,678,343
Earnings per share - basic and diluted (Rupees)	46	4.55	4.88

The annexed notes 1 to 51 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

Cash Flow Statement
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	41	6,875,036	7,059,220
Finance cost paid		(713,183)	(772,042)
Income taxes paid		(1,304,641)	(1,676,152)
Employee benefits / contributions paid		(766,229)	(535,422)
Security deposits received		1,797,695	1,404,628
Receipts against government grants and consumer contributions		7,877,457	5,230,531
Investments at fair value through profit or loss		(500,000)	–
Increase in long term loans		(18,695)	(20,813)
(Increase) / decrease in long term deposits and prepayments		(732)	667
Net cash from operating activities		13,246,708	10,690,617
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on property, plant and equipment		(16,932,167)	(10,867,846)
Capital expenditure on intangible assets		(30,876)	(19,849)
Proceeds from sale of property, plant and equipment		21,176	29,254
Return on bank deposits		1,163,528	1,406,000
Net cash used in investing activities		(15,778,339)	(9,452,441)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing – unsecured		883,581	679,752
Repayment of long term financing – unsecured		(833,231)	(759,151)
Repayment of long term financing – secured		(1,286,584)	(1,524,587)
Dividend paid		(1,641,215)	(1,488,480)
Net cash used in financing activities		(2,877,449)	(3,092,466)
Net decrease in cash and cash equivalents		(5,409,080)	(1,854,290)
Cash and cash equivalents at the beginning of the year		13,546,228	15,400,518
Cash and cash equivalents at the end of the year	30	8,137,148	13,546,228

The annexed notes 1 to 51 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 30 June 2008

	Share capital	REVENUE RESERVES			Total	Total equity
		General reserve	Dividend equalization reserve	Unappropriated profit		
	(Rupees in thousand)					
Balance as at 01 July 2006	4,991,866	4,127,682	480,000	5,509,144	10,116,826	15,108,692
Dividend for the year ended 30 June 2006						
@ Rupees 3.00 per ordinary share of Rupees 10 each	–	–	–	(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 30 June 2007	5,491,053	4,127,682	480,000	6,190,740	10,798,422	16,289,475
Dividend for the year ended 30 June 2007						
@ Rupees 3.00 per ordinary share of Rupees 10 each	–	–	–	(1,647,316)	(1,647,316)	(1,647,316)
Net profit for the year	–	–	–	2,496,690	2,496,690	2,496,690
Balance as at 30 June 2008	5,491,053	4,127,682	480,000	7,040,114	11,647,796	17,138,849

The annexed notes 1 to 51 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

Notes to the Accounts
For the year ended 30 June 2008

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 is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at 21-Kashmir Road, Lahore. The principal activity of the Company is the purchase, transmission, distribution and supply of natural gas.

2. STATEMENT OF COMPLIANCE

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

2.2 Standards, amendments and interpretations to published approved accounting standards

2.2.1 Amendments to the published standard effective in 2008

During the year ended 30 June 2008, amendments in IAS-1 “Presentation of Financial Statements” relating to capital disclosures became effective. Adoption of such amendment added an increased disclosure of capital risk management as stated in Note 47.1.

2.2.2 Amendments to existing standards and interpretations that are relevant but not effective

The following amendments in published approved accounting standards and interpretations are mandatory for the Company's accounting periods beginning on or after 01 July 2008:

- IFRS-7 - “Financial Instruments-disclosures” is effective for the Company's accounting periods beginning on or after 28 April 2008 as notified by Securities and Exchange Commission of Pakistan (SECP) vide its SRO 411 (1)/2008. This introduction will result in new disclosures relating to financial instruments only.

- IAS- 1 - “Presentation of financial statements” effective for annual periods beginning on or after 01 January 2009 revises the existing IAS 1 and requires apart from changing the names of certain components of financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in comprehensive Income Statement. Adoption of the above standard will only effect the presentation of financial statements.

- IAS-23 - “Borrowing Costs” effective from accounting periods beginning on or after 01 January 2009 requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. This change will not effect the financial statements as the Company already has the policy to capitalize its borrowing costs.

- IFRIC-14 -“The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” is effective for the Company's accounting period beginning on or after 01 January 2008. This IFRIC imposes certain restrictions on the recognition of defined benefit plan asset under IAS 19.

There are other amendments resulting from annual improvement project initiated by International Accounting Standards Board in May 2008, specifically in IAS 1, 16, 19, 20, 23, 28, 36, 38, and 39, that are considered relevant to the Company's financial statements.

Other IFRSs and interpretations that are mandatory for accounting periods beginning on or after 01 July 2008 but are considered not to be relevant to the Company's financial statements and are therefore not detailed in these financial statements.

Notes to the Accounts

For the year ended 30 June 2008

2.2.3 Standards, amendments and interpretations effective in 2008 but not relevant

Other standards, amendments and interpretations that are mandatory for Company's accounting periods beginning on or after 01 July 2007 are considered not to be relevant or do not have any significant impact on Company's financial statements.

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 judgement 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 judgements 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.

Notes to the Accounts

For the year ended 30 June 2008

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

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.

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.

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 31 December 2000 are also entitled to avail free gas facility.

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 and 90 days respectively 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 30 June 2008 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, except for compensated absences where actuarial gains or losses are recognized immediately.

Notes to the Accounts
For the year ended 30 June 2008

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.

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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.6 Property, plant and equipment

a) Cost

Operating fixed assets except freehold and leasehold land are stated at cost less accumulated depreciation and impairment loss, if any. 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 4.9.

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 16.1. Transmission and distribution system, meter and compressor stations and equipments are depreciated at annual rates of 6% to 10% which are 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.

Notes to the Accounts

For the year ended 30 June 2008

4.7 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 at the rates given in Note 17 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.

4.8 Impairment of assets

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

4.9 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.

4.10 Investments

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 profit of associate. Distributions received out of such profits shall be credited to the carrying amount of investment in associated undertaking.

Investments at fair value through profit or loss

Investments that are acquired principally for the purpose of generating profit from short term fluctuations in price are classified as investments at fair value through profit or loss. Investments at fair value through profit or loss are initially recognized at cost, being the fair value of consideration given. Subsequent to initial recognition these are recognized at fair value unless fair value can not be reliably measured. Any surplus or deficit on revaluation of investment is recognized in the profit or loss account.

All purchases and sales of investments are recognized on trade date, which is the date that the Company commits to purchase, or sell the investment.

4.11 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.

Notes to the Accounts

For the year ended 30 June 2008

4.12 Stock-in-trade

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

4.13 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.

4.14 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.

4.15 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 on monthly basis at the rates fixed by OGRA for various categories of consumers.

Interest on gas sales arrears and surcharge on late payment is recognized from the date the billed amount is overdue.

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

4.16 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.

4.17 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 rate method.

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

Notes to the Accounts
For the year ended 30 June 2008

4.18 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.

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.

4.19 Gas development surcharge / Differential Margin

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 9.30% (2007: 10.23%).

4. 20 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.

4.21 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.

Notes to the Accounts

For the year ended 30 June 2008

5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL				
2008	2007		2008	2007
(Number of shares)			(Rupees in thousand)	
121,146,000	121,146,000	Ordinary shares of Rs.10 each issued as fully paid for cash	1,211,460	1,211,460
3,329,000	3,329,000	Ordinary shares of Rs.10 each issued as fully paid for consideration other than cash	33,290	33,290
424,630,339	424,630,339	Ordinary shares of Rs.10 each issued as fully paid bonus shares	4,246,303	4,246,303
549,105,339	549,105,339		5,491,053	5,491,053

	2008	2007
	(Number of shares)	
5.1 Reconciliation of issued, subscribed and paid up capital		
Outstanding as at 01 July	549,105,339	499,186,672
Fully paid bonus shares issued during the year	–	49,918,667
Outstanding as at 30 June	549,105,339	549,105,339

5.2 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:

	2008	2007
	(Number of shares)	
Askari Bank Limited	1,287,022	2,577,022
Central Insurance Company Limited	8,595,000	12,650,000
Dawood Corporation (Private) Limited	–	17,545,000
Dawood Hercules Chemicals Limited	100,442,350	108,672,850
Dawood Lawrencepur Limited	8,272,470	8,272,470
Faysal Bank Limited	–	230,800
Industrial Development Bank of Pakistan	281,618	282,818
MCB Bank Limited	47,770,364	47,770,364
National Investment Trust Limited	141,933	141,933
NIB Bank Limited (Formerly Pakistan Industrial Credit and Investment Corporation Limited)	–	110
Pakistan Industrial Development Corporation (Private) Limited	33,042,891	33,042,891
Sach International (Private) Limited	1,400,140	–
Saudi Pak Industrial and Agricultural Investment Company (Private) Limited	94,700	–
Sui Southern Gas Company Limited	2,090,195	2,090,195
The Dawood Foundation	5,674,465	6,474,465
	209,093,148	239,750,918

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
6. LONG TERM FINANCING – Secured			
From banking companies:			
National Bank of Pakistan		–	79,334
Citi Bank N.A. Syndicate		–	232,250
Habib Bank Limited Syndicate		–	375,000
Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-1)	(6.1)	350,000	700,000
Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-2) (a)	(6.1)	125,000	250,000
Standard Chartered Bank (Pakistan) Limited Syndicate (SCBL-2) (b)	(6.1)	187,500	312,500
		662,500	1,949,084
Less: Current portion shown under current liabilities	(14)	600,000	1,286,584
		62,500	662,500

6.1

Lender	Mark-up rate	No. of installments outstanding Half yearly	Repayment commencement date	Maturity date
SCBL-1	Six month KIBOR + 0.9 % per annum	2	29 September 2005	29 March 2009
SCBL-2 (a)	Six month KIBOR + 0.9 % per annum	2	31 December 2005	30 June 2009
SCBL-2 (b)	Six month KIBOR + 0.9 % per annum	3	15 January 2006	15 July 2009

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

	Note	2008	2007
		(Rupees in thousand)	
7. LONG TERM FINANCING - Unsecured			
From banking companies and other financial institutions:			
World Bank loans - Foreign currency	(7.1)	1,515,460	2,045,483
Other loans - Local currency:			
Loans	(7.2)	1,584,676	1,929,050
Overdue interest on medium term loan	(7.3)	579,722	730,307
		2,164,398	2,659,357
		3,679,858	4,704,840
Less: Current portion shown under current liabilities			
World Bank loans - Foreign currency		571,929	530,023
Other loans - Local currency:			
Loans		144,441	219,111
Overdue interest on medium term loan		245,525	245,525
	(14)	961,895	994,659
		2,717,963	3,710,181

Notes to the Accounts

For the year ended 30 June 2008

7.1 World bank loans – Foreign currency

These comprise the following:

Loan No.	Rate of interest per annum	Half yearly installments outstanding	Repayment commencement date / Maturity date	Note	2008	2007
	(%)	(Nos.)			(Rupees in Thousands)	
3252 – PAK	0.5% above the base cost of qualified borrowing	5	01 March 1996 / 01 September 2010		2,387,922	2,582,804
3252-1 PAK	– do –	5	01 March 1996/ 01 September 2010		1,193,759	1,282,735
				(7.1.2)	3,581,681	3,865,539
Less: Exchange risk cover guaranteed by Government of Pakistan				(7.1.3)	2,066,221	1,820,056
					1,515,460	2,045,483

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

7.1.2 This represents outstanding loan of US Dollar 52,517 thousand (2007: US Dollar 63,788 thousand) translated at the exchange rate prevailing at balance sheet date.

7.1.3 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 difference between the actual repayment 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	2008	2007
		(Rupees in thousand)	
7.2 Loans			
From Government – Cash development loans	(7.2.1, 7.4 & 7.5)	1,024,188	1,401,093
From related parties	(7.2.2)	244,590	249,612
Others	(7.2.3)	315,898	278,345
		1,584,676	1,929,050

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 aggregating to Rupees 215,761 thousand (2007: Rupees 627,681 thousand) carries mark-up at the rates ranging between 5% and 9% (2007: 5% and 9%) per annum whereas loans aggregating to Rupees 808,427 thousand (2007: Rupees 992,878 thousand) carries mark up at the rate of six month State Bank of Pakistan's (SBP's) treasury bill plus 1.2 % (2007: six month SBP's treasury bill plus 1.2%) per annum on the outstanding balance or part thereof.

	Note	2008	2007
		(Rupees in thousand)	
7.2.2 Related parties:			
D.G.Khan Cement Company Limited		131,458	143,944
Packages Limited		113,132	105,668
		244,590	249,612

7.2.3 These have been obtained from certain industrial consumers for laying of gas pipelines, carrying mark-up at the rates ranging between 0% and 2% (2007: 1.5% and 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.

Notes to the Accounts
For the year ended 30 June 2008

7.3 This represents overdue interest on medium term loan. Under an agreement reached with the Government of Pakistan, this overdue interest, amounting to Rupees 2,455,249 thousand, due on 30 June 2001, is payable in 10 equal annual installments, commencing 30 June 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 whereas 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.

	2008	2007
	Rates (%)	
7.5 The effective interest rates are as follows:		
From Government – Cash development loans	7.54 – 8.00	7.54 – 8.00
From industrial consumers	2.79 – 11.16	2.79 – 9.39

	Note	2008	2007
		(Rupees in thousand)	
8. SECURITY DEPOSITS			
Consumers	(8.1 & 8.2)	9,028,193	7,252,315
Contractors – Houseline	(8.2)	39,909	18,092
		9,068,102	7,270,407

8.1 Consumer deposits represent security deposits held against amount due from consumers 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% (2007: 2%) per annum on deposits aggregating to Rupees 5,550,594 thousand (2007: Rupees 4,213,090 thousand). However, in case of Liberty Power Limited having deposit of Rupees 384,000 thousand (2007: Rupees 384,000 thousand), interest rate is 3 months SBP treasury bills cut off rate subject to a floor of 7% (2007: 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.

	2008	2007
	(Rupees in thousand)	
9. DEFERRED CREDIT		
Consumer contributions against:		
– Completed jobs	12,410,056	10,841,893
– Jobs in progress	3,277,208	3,122,202
	15,687,264	13,964,095
Government grants against:		
– Completed jobs	4,238,679	2,419,094
– Jobs in progress	16,595,557	11,069,886
	20,834,236	13,488,980
	36,521,500	27,453,075
Less: Accumulated amortization:		
Opening balance	4,344,663	3,753,309
Amortization for the year	790,289	591,354
	5,134,952	4,344,663
	31,386,548	23,108,412

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
10. DEFERRED TAX			
The liability for deferred tax comprises temporary differences relating to:			
Taxable temporary difference			
Accelerated tax depreciation		8,460,140	7,246,277
Investments at fair value through profit or loss		3,884	–
		8,464,024	7,246,277
Deductible temporary differences			
Provision for doubtful debts		(547,357)	(440,465)
Minimum tax adjustment		(335,871)	–
Interest payable on security deposits		(11,665)	(53,242)
Unpaid trading liabilities		(6,719)	–
		(901,612)	(493,707)
	(10.1)	7,562,412	6,752,570

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

		Deferred tax liabilities			Deferred tax assets						
	Note	Accelerated tax depreciation	Investment at fair value through profit or loss	TOTAL	Provision for doubtful debts	Minimum tax adjustment	Interest payable on security deposits	Medium term loan	Unpaid trading liabilities	TOTAL	Net liability
					(Rupees in thousand)						
Balance as at 01 July 2006		6,847,401	–	6,847,401	(388,821)	–	(68,588)	(343,000)	–	(800,409)	6,046,992
Charged/ (credited) to income statement	(40)	398,876	–	398,876	(51,644)	–	15,346	343,000	–	306,702	705,578
Balance as at 30 June 2007		7,246,277	–	7,246,277	(440,465)	–	(53,242)	–	–	(493,707)	6,752,570
Charged/ (credited) to income statement	(40)	1,213,863	3,884	1,217,747	(106,892)	(335,871)	41,577	–	(6,719)	(407,905)	809,842
Balance as at 30 June 2008		8,460,140	3,884	8,464,024	(547,357)	(335,871)	(11,665)	–	(6,719)	(901,612)	7,562,412

	Note	2008	2007
		(Rupees in thousand)	
11. EMPLOYEE BENEFITS			
Medical fund		245,476	250,279
Free gas facility fund		91,191	81,475
	(11.1)	336,667	331,754

Notes to the Accounts
For the year ended 30 June 2008

		Note	Medical fund 2008	Medical fund 2007	Free gas facility Fund 2008	Free gas facility Fund 2007	Total 2008	Total 2007
			(Rupees in thousand)					
11.1	Reconciliation of payable to employee benefit plans:							
	Present value of funded obligation	(11.4)	3,339,997	2,916,228	827,146	727,305	4,167,143	3,643,533
	Fair value of plan assets	(11.5)	(2,620,604)	(2,123,852)	(573,741)	(456,410)	(3,194,345)	(2,580,262)
		(11.10)	719,393	792,376	253,405	270,895	972,798	1,063,271
	Unrecognized actuarial losses		(434,312)	(482,688)	(144,979)	(163,570)	(579,291)	(646,258)
	Unrecognized past service cost		(39,605)	(59,409)	(17,235)	(25,850)	(56,840)	(85,259)
	Net liability		245,476	250,279	91,191	81,475	336,667	331,754
11.2	Movement in net liability							
	Opening liability		250,279	216,617	81,475	64,040	331,754	280,657
	Charge for the year	(11.3)	257,106	259,601	94,905	83,467	352,011	343,068
	Contribution paid		(261,909)	(225,939)	(85,189)	(66,032)	(347,098)	(291,971)
			245,476	250,279	91,191	81,475	336,667	331,754
11.3	Amounts recognized in profit and loss account are as follows:							
	Current service cost		137,506	183,361	42,159	39,633	179,665	222,994
	Interest on obligation		291,623	210,873	72,731	56,788	364,354	267,661
	Expected return on plan assets		(212,385)	(162,823)	(45,641)	(32,507)	(258,026)	(195,330)
	Net actuarial losses recognized in the year		20,558	4,609	17,041	10,938	37,599	15,547
	Past service cost - Non-vested		19,804	23,581	8,615	8,615	28,419	32,196
	Total included in employee benefit expense	(11.12)	257,106	259,601	94,905	83,467	352,011	343,068
	Actual return on plan assets		310,752	151,708	50,331	44,226	361,083	195,934
11.4	Changes in the present value of defined benefit obligation are as follows:							
	Opening defined benefit obligation		2,916,228	2,343,029	727,305	630,979	3,643,533	2,974,008
	Service cost		137,506	183,361	42,159	39,633	179,665	222,994
	Interest cost		291,623	210,873	72,731	56,788	364,354	267,661
	Actuarial losses		70,549	241,904	3,140	14,937	73,689	256,841
	Benefits paid		(75,909)	(62,939)	(18,189)	(15,032)	(94,098)	(77,971)
	Closing defined benefit obligation		3,339,997	2,916,228	827,146	727,305	4,167,143	3,643,533
11.5	Changes in the fair value of plan assets are as follows:							
	Opening fair value of plan assets		2,123,852	1,809,144	456,410	361,184	2,580,262	2,170,328
	Expected return		212,385	162,823	45,641	32,507	258,026	195,330
	Actuarial gains / (losses)		98,367	(11,115)	4,690	11,719	103,057	604
	Contribution by employer		261,909	225,939	85,189	66,032	347,098	291,971
	Benefits paid		(75,909)	(62,939)	(18,189)	(15,032)	(94,098)	(77,971)
			2,620,604	2,123,852	573,741	456,410	3,194,345	2,580,262

Notes to the Accounts
For the year ended 30 June 2008

11.6 Plan assets comprises as:

	Medical fund			
	2008		2007	
	Fair Value (Rs. in 000)	%	Fair Value (Rs. in 000)	%
Certificates of deposits	2,375,114	90.63	1,959,985	92.29
Cash at Bank	245,490	9.37	163,867	7.71
	2,620,604	100.00	2,123,852	100.00

	Free gas facility fund			
	2008		2007	
	Fair Value (Rs. in 000)	%	Fair Value (Rs. in 000)	%
Certificates of deposits	506,739	88.32	405,166	88.78
Cash at Bank	67,002	11.68	51,244	11.22
	573,741	100.00	456,410	100.00

11.7 Principal actuarial assumptions used (expressed as weighted average)

	Medical fund			
	2008		2007	
	Executive	Non-executive	Executive	Non-executive
Discount rate	12%	12%	10%	10%
Expected return of growth per annum in average cost of facility	9%	9%	7%	7%
Increase in average cost of medical facility per employee due to increase in age of recipient	2%	2%	2%	2%
Expected rate of return per annum on plan assets	12%	12%	10%	10%

	Free gas facility fund			
	2008		2007	
	Executive	Non-executive	Executive	Non-executive
Discount rate	12%	12%	10%	10%
Expected return of growth per annum in average cost of facility	11%	11%	9%	9%
Rate of utilization of facility by future entitled employees	0%	100%	0%	100%
Expected rate of return per annum on plan assets	12%	12%	10%	10%

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:

	2008		2007	
	One % point increase	One % point decrease	One % point increase	One % point decrease
Effect on the aggregate of the service cost and interest cost	96,000	(88,000)	69,770	(61,050)
Effect on defined benefit obligation	1,094,000	(1,004,000)	961,642	(882,780)

Notes to the Accounts
For the year ended 30 June 2008

11.10 Deficit for current and previous four years are as follows:

	Medical fund				
	2008	2007	2006	2005	2004
	(Rupees in thousand)				
Defined benefit obligation	3,339,997	2,916,228	2,343,029	2,110,414	1,868,381
Plan assets	(2,620,604)	(2,123,852)	(1,809,144)	(1,454,032)	–
Deficit	719,393	792,376	533,885	656,382	1,868,381
Experience adjustment on plan liabilities	70,549	241,904	(32,954)	33,941	14,651
Experience adjustment on plan assets	98,367	(11,115)	24,249	22,684	–

	Free gas facility fund				
	2008	2007	2006	2005	2004
	(Rupees in thousand)				
Defined benefit obligation	827,146	727,305	630,979	476,767	416,228
Plan assets	(573,741)	(456,410)	(361,184)	(290,310)	–
Deficit	253,405	270,895	269,795	186,457	416,228
Experience adjustment on plan liabilities	3,140	14,937	97,647	15,702	(41,065)
Experience adjustment on plan assets	4,690	11,719	4,746	4,529	–

	Note	2008	2007
		(Rupees in thousand)	
11.11 Estimated future contributions			
Medical fund		245,476	261,909
Free gas facility fund		83,242	85,189
		328,718	347,098
11.12 The charge for the year has been allocated as follows:			
Distribution cost	(35)	275,286	284,925
Administrative expenses	(36)	76,725	58,143
		352,011	343,068
12. TRADE AND OTHER PAYABLES			
Creditors for:			
– gas	(12.1)	22,445,228	18,867,672
– supplies	(12.2)	1,664,468	761,254
Accrued liabilities		1,740,666	2,032,033
Interest free deposits repayable on demand		19,625	11,111
Earnest money received from contractors		20,299	25,700
Mobilization and other advances		1,226,937	641,749
Gas development surcharge		–	144,060
Exchange risk and guarantee fees payable to the Government of Pakistan		40,212	60,340
Workers' profit participation fund	(12.3)	210,012	223,837
Unclaimed dividend		48,937	42,836
		27,416,384	22,810,592

Notes to the Accounts

For the year ended 30 June 2008

12.1 This includes an aggregate sum of Rupees 10,340,652 thousand (2007: Rupees 13,043,328 thousand), payable to related parties.

12.2 Included herein is a sum of Rupees 46,032 thousand (2007: Rupees 10,065 thousand) payable to an associate and a sum of Rupees 2,012 thousand (2007: Rupees 37,681 thousand) payable to a related party.

	Note	2008	2007
		(Rupees in thousand)	
12.3 Workers' profit participation fund			
Balance at the beginning of the year		223,837	297,094
Allocation for the year	(37)	209,531	223,690
		433,368	520,784
Interest on funds utilized in the Company's business	(39)	284	60
		433,652	520,844
Less: Payments to workers		1,630	390
Deposited into the Government treasury		222,010	296,617
		223,640	297,007
		210,012	223,837

13. INTEREST / MARKUP ACCRUED

This includes an aggregate amount of Rupees 2,604 thousand (2007: 1,072 thousand) payable to related parties.

	Note	2008	2007
		(Rupees in thousand)	
14. CURRENT PORTION OF LONG TERM FINANCING			
Long term financing – secured	(6)	600,000	1,286,584
Long term financing – unsecured	(7)	961,895	994,659
		1,561,895	2,281,243

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

The company has following contingent liabilities in respect of legal claims arising in the ordinary course of business.

15.1.1 Taxation

a) The Income Tax Appellate Tribunal (ITAT) had 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 Honourable High Court for the assessment years 1980-81 through 1993-94. Pending the outcome of appeals filed by the tax department with the above reffered 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 Rupees 343,532 thousand (2007: Rupees 376,896 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

Notes to the Accounts

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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 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 Rupees 1,046,791 thousand (2007: Rupees 1,096,333 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

c) Assistant Commissioner of Income Tax has raised tax demand aggregating to Rupees 133,600 thousand and Rupees 179,547 thousand respectively for assessment year 2001-02 and 2002-03 on account of 107AA tax credit of the repealed Income Tax Ordinance, 1979 and Workers Welfare Fund. The Company's management has filed an appeal with Commissioner Income Tax (Appeals) against this order, as management feels that there is a reasonable probability that the appeal will be decided in the Company's favour.

d) The Additional Commissioner of Income Tax (Audit) has raised a demand of Rupees 110,599 thousand on account of disallowance of gas bills collection charges relating to tax years 2003, 2004, 2005 and 2006. An appeal against the order of Additional Commissioner of Income Tax (Audit) has been filed before Commissioner of Income Tax (Appeals) which is still pending adjudication. In view of the above it is probable that further demand of Rupees 74,315 thousand relating to tax year 2007, not recognized as expense in these financial statements alongwith demand of Rupees 110,599 may be raised by the taxation authorities, which has not been provided for as the Company expects a favourable outcome of the appeal on the basis of favourable decision on similar issues by appellate authorities

15.1.2 Others

15.1.2.1 Claims against the Company not acknowledged as debts amount to Rupees 385,078 thousand (2007: Rupees 381,113 thousand).

a) Included in claims against the Company not acknowledged as debt are claims by the contractors, suppliers and consumers aggregating Rupees 76,313 thousand (2007: Rupees 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 Rupees 255,200 thousand (2007: Rupees 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.

Notes to the Accounts

For the year ended 30 June 2008

15.1.2.2 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 Rupees 440,815 thousand (2007: Rupees 494,959 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.

15.2 Contingent asset

Interest on overdue WAPDA balance

The Company has claimed interest according to the terms of the contract amounting to Rupees 443,836 thousand (2007: Rupees 428,457 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.

	Note	2008	2007
		(Rupees in thousand)	
15.3 Commitments			
a) Capital Commitments			
Capital expenditure contracted for at balance sheet date but not yet incurred is as follows:			
Property, plant and equipment		2,689,400	725,562
Others		5,094,555	4,511,316
		7,783,955	5,236,878
b) Other Commitments		414,552	85,109
16. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	(16.1)	51,895,290	43,523,023
Capital work in progress	(16.5)	10,269,886	6,513,194
		62,165,176	50,036,217

Notes to the Accounts
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16.1 Reconciliation of the carrying amounts of operating fixed assets at the beginning and end of the year is as follows:

2008

Operating fixed assets	BALANCE AS AT 01 JULY 2007			MOVEMENT DURING THE YEAR				BALANCE AS AT 30 JUNE 2008			DEPRE-CIATION RATES %
				Cost		Depreciation					
	Cost	Accumulated Depreciation	Net Book Value	Additions	(Disposals)	Charge for the year	(On Disposals)	Cost	Accumulated Depreciation	Net Book Value	
	Rupees in thousand										
Freehold land	658,968	–	658,968	141,430	–	–	–	800,398	–	800,398	–
Leasehold land	392	–	392	–	–	–	–	392	–	392	–
Buildings and civil construction on freehold land	878,368	557,566	320,802	64,671	–	37,097	–	943,039	594,663	348,376	6
Buildings on leasehold land	8,461	8,461	–	–	–	–	–	8,461	8,461	–	6
Transmission system	35,268,266	16,688,725	18,579,541	6,523,235	(135,609)	1,929,246	(135,609)	41,655,892	18,482,362	23,173,530	6-10
Distribution system	23,926,365	9,061,355	14,865,010	4,329,312	–	1,386,656	–	28,255,677	10,448,011	17,807,666	6
Consumer meter and town border stations	10,293,575	4,807,434	5,486,141	1,280,306	(24,695)	926,263	(24,695)	11,549,186	5,709,002	5,840,184	6-10
Telecommunication system and facilities	2,205,751	2,072,496	133,255	29,037	(41,379)	44,410	(41,068)	2,193,409	2,075,838	117,571	15
Compressor stations and equipment	5,281,485	2,678,517	2,602,968	111,176	(100)	256,792	(80)	5,392,561	2,935,229	2,457,332	6-9
Plant and machinery	2,961,206	2,405,005	556,201	413,340	(27,241)	196,965	(27,197)	3,347,305	2,574,773	772,532	10-20
Computers and ancillary equipments	229,009	122,759	106,250	94,108	(10,633)	33,839	(10,425)	312,484	146,173	166,311	15
Furniture and equipment	166,624	126,369	40,255	22,855	(3,156)	14,283	(2,404)	186,323	138,248	48,075	15-20
Tools and accessories	125,072	105,285	19,787	10,866	–	15,928	–	135,938	121,213	14,725	33.33
Transport vehicles	781,365	627,912	153,453	283,837	(37,710)	87,860	(36,478)	1,027,492	679,294	348,198	25
Total	82,784,907	39,261,884	43,523,023	13,304,173	(280,523)	4,929,339	(277,956)	95,808,557	43,913,267	51,895,290	

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	2007										
	BALANCE AS AT 01 JULY 2006			MOVEMENT DURING THE YEAR				BALANCE AS AT 30 JUNE 2007			DEPRE-CIATION
				Cost		Depreciation					
Operating fixed assets	Cost	Accumulated Depreciation	Net Book Value	Additions	(Disposals)	Charge for the year	(On Disposals)	Cost	Accumulated Depreciation	Net Book Value	RATES %
	Rupees in thousand										
Freehold land	577,190	–	577,190	81,778	–	–	–	658,968	–	658,968	–
Leasehold land	392	–	392	–	–	–	–	392	–	392	–
Buildings and civil construction on freehold land	845,631	519,110	326,521	32,737	–	38,456	–	878,368	557,566	320,802	6
Buildings on leasehold land	8,461	8,461	–	–	–	–	–	8,461	8,461	–	6
Transmission system	32,624,609	15,117,153	17,507,456	2,673,804	(30,147)	1,601,584	(30,012)	35,268,266	16,688,725	18,579,541	6-10
Distribution system	19,175,446	7,903,563	11,271,883	4,750,919	–	1,157,792	–	23,926,365	9,061,355	14,865,010	6
Consumer meter and town border stations	9,025,133	3,730,695	5,294,438	1,304,100	(35,658)	1,112,397	(35,658)	10,293,575	4,807,434	5,486,141	6-10
Telecommunication system and facilities	2,132,706	2,008,747	123,959	74,745	(1,700)	65,449	(1,700)	2,205,751	2,072,496	133,255	15
Compressor stations and equipment	4,560,403	2,387,218	2,173,185	721,082	–	291,299	–	5,281,485	2,678,517	2,602,968	6-9
Plant and machinery	2,876,530	2,288,353	588,177	151,543	(66,867)	180,852	(64,200)	2,961,206	2,405,005	556,201	10-20
Computers and ancillary equipments	170,187	103,541	66,646	61,470	(2,648)	21,868	(2,650)	229,009	122,759	106,250	15
Furniture and equipment	149,012	115,498	33,514	19,583	(1,971)	12,473	(1,602)	166,624	126,369	40,255	15-20
Tools and accessories	112,086	81,037	31,049	12,986	–	24,248	–	125,072	105,285	19,787	33.33
Transport vehicles	746,622	581,705	164,917	65,545	(30,802)	77,009	(30,802)	781,365	627,912	153,453	25
Total	73,004,408	34,845,081	38,159,327	9,950,292	(169,793)	4,583,427	(166,624)	82,784,907	39,261,884	43,523,023	

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
16.1.1 The depreciation charge for the year has been allocated as follows:			
Distribution cost	(35)	4,713,634	4,333,989
Administrative expenses	(36)	98,533	105,634
Capitalized during the year:			
Transmission system		90,787	78,899
Distribution system		1,796	44,678
Capital work in progress		24,589	20,227
		117,172	143,804
		4,929,339	4,583,427

16.1.2 Details of certain assets disposed of during the year are as follows:

Description	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Mode of disposal	Sold to
	(R	u p	e e	s)		
Toyota Corolla CA XLI	854,700	677,131	177,569	216,098	Service rules	Mr. Nadeem Shahryar SGM(CP&D)
Suzuki Cultus Car	568,000	177,496	390,504	396,663	Service rules	Mr. Chaudhary Asghar Ali CE(Corr)
Payami Single Channel Radio	139,380	57,489	81,891	83,633	Insurance Claim	–
Telecom Spares	277,440	48,552	228,888	251,567	Insurance Claim	–
CISCO Router with Accessories	156,000	104,395	51,605	53,555	Insurance Claim	–
Toyota Corolla CAR XLI	889,000	259,293	629,707	800,000	Insurance Claim	–
Dell Latitude Intel Laptop	147,200	37,787	109,413	117,760	Insurance Claim	–

Net book value of all other assets disposed of during the year was less than Rupees 50,000.

16.2 Land amounting to Rupees 547,498 thousand (2007: Rupees 504,837 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.

16.3 Disposals appearing under the transmission system includes the cost of uplifted pipelines amounting to Rupees 135,609 thousand (2007: Rupees 29,771 thousand) having Rupees NIL book value.

16.4 The cost of the assets as on 30 June 2008 include fully depreciated assets amounting to Rupees 14,020,344 thousand (2007: Rupees12,776,570 thousand) but are still in use of the Company.

	Note	2008	2007
		(Rupees in thousand)	
16.5 Capital work in progress			
Transmission system		1,612,305	586,767
Distribution system		4,509,181	2,741,444
Stores and spare parts held for capital expenditure	(16.5.1)	3,855,372	3,019,222
Advances for land and other capital expenditure		293,028	165,761
		10,269,886	6,513,194
16.5.1 Stores and spare parts held for capital expenditure			
Stores and spare parts including in transit Rupees 377,139 thousand (2007: Rupees 175,889 thousand)		3,867,898	3,035,187
Less: Provision for obsolescence		12,526	15,965
		3,855,372	3,019,222

Notes to the Accounts

For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
17. INTANGIBLE ASSETS			
Reconciliation of the carrying amounts at the beginning and end of the year is as follows:			
Computer softwares and ERP system:			
Balance as at 01 July			
Cost		26,569	6,720
Accumulated amortization		8,856	–
		17,713	6,720
Movement during the year			
Additions during the year		30,876	19,849
Amortization charge for the year	(36)	19,148	8,856
Balance as at 30 June			
Cost		57,445	26,569
Accumulated amortization		28,004	8,856
		29,441	17,713
Rate of amortization		33.33%	33.33%
18. INVESTMENT IN AN ASSOCIATE COMPANY			
Inter State Gas Systems (Private) Limited			
490,000 (2007: 490,000) ordinary shares of Rs 10 each	(18.1)	4,900	4,978
18.1 Reconciliation of carrying amount of investment in associate:			
Opening balance		4,978	4,900
Share of profit for the year before tax		422	485
Share of tax:			
Current		(422)	(407)
Prior year		(78)	–
		(78)	78
		4,900	4,978

18.2 The gross amounts of assets, liabilities, net assets and revenue of Inter State Gas System (Private) Limited are as per managment (un-audited) financial statements for the year ended 30 June are as follows:

	Note	2008	2007
		(Rupees in thousand)	
Assets		71,017	40,151
Liabilities		61,017	29,992
Net Assets		10,000	10,159
Revenue		171,120	166,350
% of interest held		49	49

Notes to the Accounts

For the year ended 30 June 2008

19. LONG TERM LOANS – Considered good

	Note	Employee welfare 2008	Employee welfare 2007	House building 2008	House building 2007	Car 2008	Car 2007	Motorcycle/ Scooter 2008	Motorcycle/ Scooter 2007	Total 2008	Total 2007
		(Rupees in thousand)									
Due from:											
Executives	(19.1)	–	–	6,008	4,186	173	99	–	–	6,181	4,285
Other employees		54,173	–	223,291	262,752	32	551	20,269	24,144	297,765	287,447
		54,173	–	229,299	266,938	205	650	20,269	24,144	303,946	291,732
Amount due within one year:											
Executives	(24)	–	–	2,580	1,648	115	44	–	–	2,695	1,692
Other employees	(24)	8,769	–	55,477	57,009	59	434	12,301	10,287	76,606	67,730
		8,769	–	58,057	58,657	174	478	12,301	10,287	79,301	69,422
		45,404	–	171,242	208,281	31	172	7,968	13,857	224,645	222,310
19.1 Reconciliation of balance due from executives:											
Opening balance		–	–	4,186	5,495	99	118	–	–	4,285	5,613
Disbursements		–	–	5,095	535	331	42	–	–	5,426	577
		–	–	9,281	6,030	430	160	–	–	9,711	6,190
Less: Repayments / Adjustments		–	–	3,273	1,844	257	61	–	–	3,530	1,905
Closing balance		–	–	6,008	4,186	173	99	–	–	6,181	4,285

19.2 Employee Welfare, House building and car loans are repayable in 10 years, whereas motorcycle/ scooter loans are repayable in 3 years. Interest from 1% to 10% (2007: 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.

19.3 Employee Welfare loan facility has been introduced in current year in place of House building loans facility.

19.4 The maximum amount due from the Chief Executive and executives at any month end during the year was Rupees NIL (2007: Rupees Nil) and Rupees 9,339 thousand (2007: Rupees 6,031 thousand) respectively.

19.5 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.

	2008	2007
	Rate (%)	
19.6 Effective interest rates	6.84 to 18	6.84 to 18

	Note	2008	2007
		(Rupees in thousand)	
20. EMPLOYEE BENEFITS			
Pension fund		333,295	142,056
Gratuity fund		(628)	(108,328)
		332,667	33,728
Compensated absences		24,473	21,028
	(20.1)	357,140	54,756

Notes to the Accounts
For the year ended 30 June 2008

		Note	Pension fund 2008	Pension fund 2007	Gratuity fund 2008	Gratuity fund 2007	Compensated Absences 2008	Compensated Absences 2007	Total 2008	Total 2007
			(Rupees in thousand)							
20.1	Reconciliation of receivable from / (payable to) employee benefit plans:									
	Fair value of plan assets	(20.5)	3,481,655	3,029,457	1,459,639	1,325,099	206,387	185,870	5,147,681	4,540,426
	Present value of funded obligations	(20.4)	(3,157,782)	(2,516,148)	(1,685,720)	(1,360,363)	(181,914)	(164,842)	(5,025,416)	(4,041,353)
		(20.9)	323,873	513,309	(226,081)	(35,264)	24,473	21,028	122,265	499,073
	Unrecognized actuarial (gains) / losses		(40,608)	(446,297)	225,453	(73,064)	–	–	184,845	(519,361)
	Unrecognized past service cost		50,030	75,044	–	–	–	–	50,030	75,044
	Net asset / (liability)		333,295	142,056	(628)	(108,328)	24,473	21,028	357,140	54,756
20.2	Movement in net asset / (liability)									
	Opening asset / (liability)		142,056	79,815	(108,328)	(111,812)	21,028	4,432	54,756	(27,565)
	Charge for the year	(20.3)	(17,103)	(67,355)	(79,844)	(92,564)	(19,799)	3,221	(116,746)	(156,698)
	Contribution paid		208,342	129,596	187,544	96,048	23,244	13,375	419,130	239,019
			333,295	142,056	(628)	(108,328)	24,473	21,028	357,140	54,756
20.3	Amounts recognized in profit and loss account are as follows:									
	Current service cost		(137,170)	(131,210)	(97,062)	(91,946)	(17,883)	(9,810)	(252,115)	(232,966)
	Interest on obligation		(251,615)	(215,064)	(136,037)	(114,558)	(16,485)	(14,498)	(404,137)	(344,120)
	Expected return on plan assets		363,535	287,159	159,012	135,318	18,588	14,897	541,135	437,374
	Net actuarial (losses) / gains recognized in the year		33,161	16,774	(5,757)	(12,037)	(4,019)	12,632	23,385	17,369
	Past service cost		(25,014)	(25,014)	–	(9,341)	–	–	(25,014)	(34,355)
	Total included in employee benefit expense		(17,103)	(67,355)	(79,844)	(92,564)	(19,799)	3,221	(116,746)	(156,698)
	Actual return on plan assets		407,816	606,557	168,062	237,041	20,517	20,348	596,395	863,946
20.4	Changes in the present value of defined benefit obligation are as follows:									
	Opening defined benefit obligation		(2,516,148)	(2,389,599)	(1,360,363)	(1,272,873)	(164,842)	(161,090)	(4,041,353)	(3,823,562)
	Service cost		(137,170)	(131,210)	(97,062)	(91,946)	(17,883)	(9,810)	(252,115)	(232,966)
	Interest cost		(251,615)	(215,064)	(136,037)	(114,558)	(16,485)	(14,498)	(404,137)	(344,120)
	Actuarial (losses) / gains		(416,809)	120,036	(313,324)	(16,618)	(5,948)	7,181	(736,081)	110,599
	Benefits paid		163,960	99,689	221,066	135,632	23,244	13,375	408,270	248,696
	Closing defined benefit obligation		(3,157,782)	(2,516,148)	(1,685,720)	(1,360,363)	(181,914)	(164,842)	(5,025,416)	(4,041,353)
20.5	Changes in the fair value of plan assets are as follows:									
	Opening fair value of plan assets		3,029,457	2,392,993	1,325,099	1,127,642	185,870	165,522	4,540,426	3,686,157
	Expected return		363,535	287,159	159,012	135,318	18,588	14,897	541,135	437,374
	Actuarial gains		44,281	319,398	9,050	101,723	1,929	5,451	55,260	426,572
	Contributions by employer		291,342	149,596	104,544	76,048	23,244	13,375	419,130	239,019
	Benefits paid		(163,960)	(99,689)	(221,066)	(135,632)	(23,244)	(13,375)	(408,270)	(248,696)
	Amount transferred from pension fund to gratuity fund		(83,000)	(20,000)	83,000	20,000	–	–	–	–
			3,481,655	3,029,457	1,459,639	1,325,099	206,387	185,870	5,147,681	4,540,426

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		Pension fund				Gratuity fund			
		2008		2007		2008		2007	
		Fair Value (Rs. In 000)	%	Fair Value (Rs. In 000)	%	Fair Value (Rs. In 000)	%	Fair Value (Rs. In 000)	%
20.6	**Plan assets comprises as:**								
	Defence Saving Certificates	290,335	8.34	1,035,830	34.19	133,220	9.13	268,297	20.25
	Mutual funds	160,460	4.61	907,261	29.95	88,285	6.05	426,680	32.20
	Certificates of deposits	2,844,000	81.69	50,000	1.65	1,159,000	79.40	50,000	3.77
	Pakistan Investment Bonds	116,000	3.33	116,000	3.83	28,000	1.92	28,000	2.11
	Cash at Bank	70,860	2.03	920,366	30.38	51,134	3.50	552,122	41.67
		3,481,655	100.00	3,029,457	100.00	1,459,639	100.00	1,325,099	100.00

	Compensated Absences			
	2008		2007	
	Fair Value (Rs. In 000)	%	Fair Value (Rs. In 000)	%
Certificates of deposits	206,089	99.86	185,612	99.86
Cash at Bank	298	0.14	258	0.14
	206,387	100.00	185,870	100.00

20.7 Principal actuarial assumptions used (expressed as weighted average)

	Pension fund				Gratuity fund			
	2008		2007		2008		2007	
	Executive	Non executive	Executive	Non executive	Executive	Non executive	Executive	Non executive
Expected increase in salaries	11%	11%	9%	9%	11%	11%	9%	9%
Discount rate	12%	12%	10%	10%	12%	12%	10%	10%
Expected rate of return per annum on plan assets	12%	12%	12%	12%	12%	12%	12%	12%

	Compensated Absences			
	2008		2007	
	Executive	Non executive	Executive	Non executive
Expected increase in salaries	11%	11%	9%	9%
Discount rate	12%	12%	10%	10%
Expected return of salary increase	12%	12%	10%	10%

20.8 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.

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For the year ended 30 June 2008

20.9 Surplus / (deficit) for current and previous four years are as follows:

	Pension Fund				
	2008	2007	2006	2005	2004
	(Rupees in thousand)				
Plan assets	3,481,655	3,029,457	2,392,993	1,969,714	1,608,392
Defined benefit obligation	(3,157,782)	(2,516,148)	(2,389,599)	(2,112,738)	(1,799,314)
Surplus / (deficit)	323,873	513,309	3,394	(143,024)	(190,922)
Experience adjustment on plan liabilities	(416,809)	120,036	(58,657)	(152,721)	2,661
Experience adjustment on plan assets	44,281	319,398	174,370	184,962	113,742

	Gratuity Fund				
	2008	2007	2006	2005	2004
	(Rupees in thousand)				
Plan assets	1,459,639	1,325,099	1,127,642	954,101	773,216
Defined benefit obligation	(1,685,720)	(1,360,363)	(1,272,873)	(1,209,628)	(1,133,781)
(Deficit)	(226,081)	(35,264)	(145,231)	(255,527)	(360,565)
Experience adjustment on plan liabilities	(313,324)	(16,618)	2,073	(35,997)	(25,957)
Experience adjustment on plan assets	9,050	101,723	60,144	44,661	81,084

	Compensated Absences				
	2008	2007	2006	2005	2004
	(Rupees in thousand)				
Plan assets	206,387	164,842	161,090	153,081	147,283
Defined benefit obligation	(181,914)	(185,870)	(165,522)	(149,617)	–
Surplus / (deficit)	24,473	(21,028)	(4,432)	3,464	147,283
Experience adjustment on plan liabilities	(5,948)	7,181	4,025	11,545	(1,944)
Experience adjustment on plan assets	1,929	5,451	2,439	2,334	–

	Note	2008	2007
		(Rupees in thousand)	
20.10 Estimated future contributions			
Pension fund		308,573	291,342
Gratuity fund		117,898	104,544
		426,471	395,886
20.11 The charge for the year has been allocated as follows:			
Distribution cost	(35)	105,350	179,013
Administrative expenses	(36)	11,396	(22,315)
		116,746	156,698

Notes to the Accounts

For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
21. LONG TERM DEPOSITS AND PREPAYMENTS			
Security deposits		4,076	3,527
Prepayments		18,013	14,826
		22,089	18,353
Less: Current portion of prepayments	(25)	13,719	10,715
Provision against prepayments		1,232	1,232
		14,951	11,947
		7,138	6,406
22. STORES AND SPARE PARTS			
Stores including in transit amounting to Rupees 1,136,381 thousand (2007: Rupees 78,131 thousand)	(22.1)	1,790,835	661,295
Spare parts including in transit amounting to Rupees 91,192 thousand (2007: Rupees 85,619 thousand)	(22.1)	504,702	434,538
		2,295,537	1,095,833
Less: Provision for obsolescence		8,453	6,307
		2,287,084	1,089,526

22.1 This includes a sum of Rupees 39,295 thousand (2007: Rupees 16,144 thousand) which represents the cost of stores and spares not in possession of the Company.

	Note	2008	2007
		(Rupees in thousand)	
23. TRADE DEBTS			
Considered good:			
Secured	(23.1)	11,977,460	11,542,217
Unsecured	(23.1)	6,741,872	4,613,413
Accrued gas sales		38,053	73,437
		18,757,385	16,229,067
Considered doubtful		1,428,181	1,122,774
		20,185,566	17,351,841
Less: Provision made for doubtful debts	(23.2)	(1,428,181)	(1,122,774)
		18,757,385	16,229,067

23.1 These include amount due from related parties:	2008	2007
Nishat Mills Limited	96,023	101,421
Sui Southern Gas Company Limited	24,963	16,284
ICI Pakistan Limited	91,385	74,376
Packages Limited	90,018	59,780
Dawood Hercules Chemicals Limited	188,179	178,031
D.G. Khan Cement Company Limited	72,451	77,707
Mustehkum Cement Company Limited	7,968	25,988
The Crescent Textile Mills Limited	4,514	–
	575,501	533,587

23.2 Provision for doubtful debts	2008	2007
Balance as on 01 July	1,122,774	975,688
Provision during the year	305,407	147,086
Balance as on 30 June	1,428,181	1,122,774

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
24. LOANS AND ADVANCES			
Loans due from employees – considered good			
Executives	(19)	2,695	1,692
Other employees	(19)	76,606	67,730
		79,301	69,422
Advances – considered good			
– other employees		4,365	2,012
– suppliers and contractors	(24.1)	64,737	109,980
Advances to suppliers and contractors – considered doubtful		3,227	3,227
Less: Provision for doubtful receivables		3,227	3,227
		–	–
		148,403	181,414

24.1 It includes an amount of Rupees NIL (2007: Rupees 220 thousand) related to BOC (Pakistan) Limited, a related party.

	Note	2008	2007
		(Rupees in thousand)	
25. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits and prepayments		103,999	44,868
Less: Provision for doubtful receivables		22,290	22,290
		81,709	22,578
Current portion of long term prepayments	(21)	13,719	10,715
		95,428	33,293

26. INTEREST ACCRUED

This includes an aggregate sum of Rupees Nil (2007: 3,249 thousand) receivable from related parties.

	Note	2008	2007
		(Rupees in thousand)	
27. OTHER RECEIVABLES			
Exchange differences on long term loans recoverable from the Government of Pakistan		395,959	1,293,164
Excise duty recoverable	(27.1)	108,945	108,945
Less: Provision for doubtful recoverable		108,945	108,945
		–	–
Differential margin recoverable		1,800,101	–
Others		39,381	26,042
		2,235,441	1,319,206

27.1 Included is an amount of Rupees 7,230 thousand (2007: Rupees 7,230 thousand) relating to Dawood Hercules Chemicals Limited (a related party).

Notes to the Accounts
For the year ended 30 June 2008

		Note	2008	2007
			(Rupees in thousand)	
28.	TAXATION – net			
	Income tax refundable		1,390,822	1,370,368
	Less: provision for taxation		626,301	1,236,289
			764,521	134,079
29.	SHORT TERM INVESTMENTS			
	Investments at fair value through profit or loss			
	AKD Income Fund		100,000	–
	Askari Income Fund		200,000	–
	NAFA Cash Fund		200,000	
			500,000	–
	Unrealized fair value gain	(29.1)	11,096	–
			511,096	–

29.1 Fair value of these investments are determined using redemption / repurchase price.

		Note	2008	2007
			(Rupees in thousand)	
30.	CASH AND BANK BALANCES			
	Cash at bank and in hand	(30.1)	8,137,148	13,046,228
	Short term bank deposits	(30.2)	–	500,000
			8,137,148	13,546,228
30.1	Cash at bank and in hand			
	Cash at banks			
	On deposits, including Rupees 586,328 thousand (2007: Rupees 18,686 thousand)	(30.2)	7,718,310	12,887,836
	On current accounts, including remittances in transit and cheques under clearance of Rupees Nil (2007: Rupees 138,933 thousand)		417,692	157,279
			8,136,002	13,045,115
	Cash in hand		1,146	1,113
			8,137,148	13,046,228

30.2 This represents term deposit maintained with ABN Amro Bank Limited (Formerly: 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 2 % to 13.06% (2007: 3 % to 11.85 %) per annum.

		Note	2008	2007
			(Rupees in thousand)	
31.	GAS SALES			
	Gross sales		139,823,038	137,187,372
	Less: Sales tax		16,418,265	15,095,426
	Discount		236	294
			16,418,501	15,095,720
			123,404,537	122,091,652

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
32. COST OF GAS SOLD			
Opening stock of gas in pipelines		473,404	445,772
Gas purchases:			
Southern system		87,511,218	81,326,087
Northern system		10,786,476	9,728,104
Cost equalization adjustment	(32.1)	13,216,857	10,143,974
		111,514,551	101,198,165
		111,987,955	101,643,937
Less: Gas internally consumed		2,355,124	2,002,283
Closing stock of gas in pipelines		525,370	473,404
		2,880,494	2,475,687
Cost of gas sold		109,107,461	99,168,250

32.1 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 the Sui Southern Gas Company Limited (SSGCL) for uniform pricing of gas. Under this agreement, the Company with a higher weighted average cost of gas 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	2008	2007
		(Rupees in thousand)	
33. RENTAL AND SERVICE INCOME			
Transmission charges exclusive of sales tax of Rupees 1,544 thousand (2007: Rupees 1,337 thousand)		10,424	9,283
Meter rental exclusive of sales tax of Rupees 121,135 thousand (2007: Rupees 109,040 thousand)		810,860	726,935
Testing and reconnection charges		10,947	11,457
Income from repair work		84,120	80,465
		916,351	828,140
34. SURCHARGE AND INTEREST ON GAS SALES ARREARS			
Interest on gas sales arrears		290,459	294,893
Surcharge on late payments		412,869	378,348
		703,328	673,241

34.1 Interest on gas sales arrears at the rate of 1.5% (2007: 1.5%) per month upto one year and thereafter 2% (2007: 2%) per month is charged on over due amounts.

34.2 One time late payment surcharge is charged to domestic consumers on over due amounts at the rate of 10% (2007: 10%) per annum.

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
35. DISTRIBUTION COST			
Salaries, wages and benefits	(11.12, 20.11 & 35.1)	2,790,849	2,648,190
Employees medical and welfare	(11.12)	351,508	345,227
Stores and spares consumed		271,738	279,693
Fuel and power		2,243,290	1,971,878
Repairs and maintenance		418,670	350,168
Rent, rates, electricity and telephone		107,226	137,324
Insurance		99,892	133,698
Travelling		87,848	88,911
Stationery and postage		42,334	38,852
Dispatch of gas bills		48,936	20,647
Transportation charges		285,137	247,841
Provision for doubtful debts		305,407	147,088
Professional services		16,640	3,298
Gathering charges of gas bills collection data		26,172	21,779
Stores and spares written off	(35.2)	1,829	–
Provision for obsolete stores and spare parts		9,767	–
Gas bills collection charges		222,507	212,329
Security expenses		169,009	94,461
Service charges	(35.3)	93,239	82,100
Advertisement		69,832	58,671
Depreciation	(16.1.1)	4,713,634	4,333,989
Others		148,000	65,829
		12,523,464	11,281,973
Less: Allocated to fixed capital expenditure		725,686	589,912
		11,797,778	10,692,061

35.1 Included in salaries, wages and benefits is a sum of Rupees 73,645 thousand (2007: Rupees 61,363 thousand) in respect of the Company's contribution to the Employees Provident Fund.

35.2 This represents book value of meters which were not considered repairable and hence written off.

35.3 This includes reimbursable expenses of Rupees 93,170 thousand (2007: Rupees 81,573 thousand) to Inter State Gas Systems (Private) Limited (an associated undertaking).

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
36. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	(11.12, 20.11 & 36.1)	935,456	894,801
Employees medical and welfare	(11.12)	105,920	103,359
Stores and spares consumed		51,716	33,580
Fuel and power		16,276	17,024
Repairs and maintenance		40,799	31,100
Rent, rates, electricity and telephone		22,461	24,668
Insurance		7,827	7,640
Travelling		26,451	24,973
Stationery and postage		25,295	23,068
Transportation charges		24,460	22,530
Professional services	(36.2)	28,270	26,363
Loans to deceased employees written off		26	67
Security expenses		19,781	15,914
OGRA fee and expenses		76,750	77,236
Advertisement		1,353	1,281
Depreciation	(16.1.1)	98,533	105,634
Amortization of intangible assets	(17)	19,148	8,856
Others		59,536	41,420
		1,560,058	1,459,514
Less: Allocated to fixed capital expenditure		180,978	146,531
		1,379,080	1,312,983

36.1 Included in salaries, wages and benefits is Rupees 24,349 thousand (2007: Rupees 19,880 thousand) in respect of the Company's contribution to Employees Provident Fund.

	Note	2008	2007
		(Rupees in thousand)	
36.2 Professional services			
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.		230	169
Riaz Ahmad & Co.		190	180
		420	349
Out of pocket expenses:			
Ford Rhodes Sidat Hyder & Co.		175	175
Riaz Ahmad & Co.		175	175
		350	350
		1,420	1,349

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
37. OTHER OPERATING EXPENSES			
Workers' Profit Participation Fund	(12.3)	209,531	223,690
Exchange loss on gas purchases		624,792	–
Loss on initial recognition of financial assets at fair value		22,362	16,855
Donations	(37.1)	100,509	779
		957,194	241,324

37.1 This includes an amount of Rupees 100,000 thousand (2007: Rupees Nil) paid to The Lahore University of Management Sciences (LUMS), Defence Housing Authority, Lahore where Mr. Altaf M. Saleem, Chairman of Board of Directors of the Company, Mr. A. Rashid Lone, Chief Executive / Managing Director of the Company, Mr. Shahzada Dawood and Mr. Abdul Bari Khan, Directors of the Company were also on the Board of Governors of LUMS.

	Note	2008	2007
		(Rupees in thousand)	
38. OTHER OPERATING INCOME			
Income from financial assets			
Return on bank deposits		1,131,760	1,417,996
Gain on initial recognition of financial liabilities at fair value		51,684	111,240
Interest on staff loans		26,446	26,437
Unrealized fair value gain on revaluation of investments at fair value through profit or loss		11,096	–
		1,220,986	1,555,673
Income from assets other than financial assets			
Net gain on sale of fixed assets		18,609	26,366
Insurance claims	(38.1)	3,095	1,694
		21,704	28,060
Others			
Gain on construction contracts		105,132	47,544
Bad debt recoveries		30,506	53,009
Liquidated damages recovered		28,927	46,203
Sale of scrap		27,832	46,546
Credit balances written back		6,061	65,606
Sale of tender documents		1,788	947
Sale of condensate		561	–
Exchange gain on gas purchases		–	11,183
Miscellaneous		3,071	347
		203,878	271,385
		1,446,568	1,855,118

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

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
39. FINANCE COSTS			
Mark-up/ interest/ commitment charges on:			
Long term financing:			
– Secured		143,588	286,903
– Unsecured		391,836	283,851
Security deposits		127,179	100,161
Workers' profit participation fund	(12.3)	284	60
		662,887	670,975
Exchange risk coverage fee		126,360	189,740
		789,247	860,715
40. TAXATION			
Current year			
Current tax	(28 & 40.1)	626,301	1,107,566
Share of tax from associate		422	407
		626,723	1,107,973
Deferred	(10.1)	809,842	705,578
		1,436,565	1,813,551
Prior year			
Current tax		47,898	(241,837)
Share of tax from associate		78	–
		47,976	(241,837)
		1,484,541	1,571,714

40.1 The provision for taxation for the current year ended on 30 June 2008 represents minimum tax liability under section 113 of the Income Tax Ordinance, 2001. This liability is adjustable against normal tax liability in subsequent years to the extent the minimum tax liability of the current year exceeds normal tax liability upto five years immediately succeeding the tax year.

	2008	2007
	%	%
40.2 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
Add /(Less): Tax effect of amounts that are not deductible	0.96	0.62
Effect of changes in current tax of prior years	1.20	(5.69)
Others	0.12	7.04
	2.28	1.97
Average effective tax rate charged to profit and loss account	37.28	36.97

Notes to the Accounts
For the year ended 30 June 2008

	Note	2008	2007
		(Rupees in thousand)	
41. CASH GENERATED FROM OPERATIONS			
Profit before taxation and share of associate		3,980,809	4,249,572
Adjustment for non-cash charges and other items:			
Depreciation		4,812,167	4,439,623
Amortization of intangible assets		19,148	8,856
Employee benefits		455,399	450,357
Amortization of deferred credit		(790,289)	(591,354)
Net gain on sale of fixed assets		(18,609)	(26,366)
Unrealized fair value gain on revaluation of investments at fair value through profit or loss		(11,096)	–
Finance cost		789,247	860,715
Return on bank deposits		(1,131,760)	(1,417,996)
Provision for doubtful debts		305,407	147,088
Stores and spares written off		1,829	–
Gain on initial recognition of financial liabilities at fair value		(51,684)	(111,240)
Loss on initial recognition of financial assets at fair value		22,362	16,855
Interest income/ expense due to impact of IAS- 39		(15,880)	(16,343)
Working capital changes	(41.1)	(1,492,041)	(950,547)
		6,875,036	7,059,220

	2008	2007
41.1 Working capital changes		
(Increase) / decrease in current assets:		
Stores and spare parts	(1,197,558)	94,614
Stock in trade – gas in pipelines	(51,966)	(27,632)
Trade debts	(2,833,724)	(1,858,618)
Loans and advances	42,889	(91,829)
Trade deposits and short term prepayments	(62,135)	(1,367)
Other receivables	(2,009,338)	141,718
	(6,111,832)	(1,743,114)
Increase in current liabilities		
Trade and other payables	4,619,818	792,567
	(1,492,014)	(950,547)

42. 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	
	2008	2007	2008	2007
Number of persons	1	1	303	125
	(Rupees in Thousand)			
Managerial remuneration	5,020	3,526	247,708	106,440
Contribution to provident, pension and gratuity fund		–	62,175	26,716
Housing and utilities	2,300	1,616	127,028	52,665
Leave encashment		–	2,281	3,092
Club subscription	4	4	56	54
	7,324	5,146	439,248	188,967

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.

Notes to the Accounts
For the year ended 30 June 2008

The aggregate amount charged in the financial statements in respect of directors' fee paid and reimbursement of perquisites to fifteen (2007: fourteen) directors is Rupees 3,021 thousand (2007: Rupees 2,251 thousand). No other remuneration/compensation is paid to directors during the year.

43. 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	2008	2007
			(Rupees in Thousand)	
Associate company	Services	(35.3)	93,170	81,573
Other related parties	Gas sales		5,620,768	4,776,925
	Purchase of materials		732,820	843,373
	Purchase of gas		51,195,791	45,095,172
	Profit received on bank deposits		151,739	229,874
	Insurance expense		119,779	165,755
	Insurance claimed received		18,151	28,922
	Dividend paid		528,851	634,593
	Transmission charges		10,424	9,283
Post employment benefit plans	Contribution to defined contribution plans	(43.1)	118,035	85,503
	Contribution to defined benefit plans	(43.1)	766,228	530,990

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

44. UNUTILIZED CREDIT FACILITIES

The Company has the facilities for opening of letters of credit amounting to Rupees 6,500,000 thousand (2007: Rupees 3,598,000 thousand) out of which Rupees 3,637,450 thousand (2007: Rupees Nil) remained unutilized at the end of the year.

45. CAPACITY AND ACTUAL PERFORMANCE

The average daily gas transmitted during the year was 511,868 hm3 (2007: 492,925 hm3) against the designed capacity of 459,234 hm3 (2007: 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.

46. EARNINGS PER SHARE – BASIC AND DILUTED

		Note	2008	2007
Net profit for the year	Rupees in thousand		2,496,690	2,678,343
Average ordinary shares in issue	Number of shares	(5)	549,105,339	549,105,339
Basic earnings per share	Rupees		4.55	4.88

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.

Notes to the Accounts

For the year ended 30 June 2008

47. FINANCIAL INSTRUMENTS

	Interest / mark-up bearing						Non interest / mark-up bearing						Total	
	Maturity upto one year		Maturity after one year but less than five years		Maturity after five years		Maturity upto one year		Maturity after one year but less than five years		Maturity after five years			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Rupees In thousand													
Financial assets														
Long term loans	79,301	69,422	118,234	108,069	106,411	114,241	–	–	–	–	–	–	303,946	291,732
Long term deposits	–	–	–	–	–	–	–	–	–	–	4,076	3,527	4,076	3,527
Trade debts	–	–	–	–	–	–	20,185,566	17,351,841	–	–	–	–	20,185,566	17,351,841
Interest accrued	–	–	–	–	–	–	40,988	72,756	–	–	–	–	40,988	72,756
Trade deposits	–	–	–	–	–	–	78,269	13,641	–	–	–	–	78,269	13,641
Other receivables	–	–	–	–	–	–	401,157	1,298,362	–	–	–	–	401,157	1,298,362
Short term investment	–	–	–	–	–	–	511,096	–	–	–	–	–	511,096	–
Cash and bank balances	7,718,310	13,387,836	–	–	–	–	418,838	158,392	–	–	–	–	8,137,148	13,546,228
	7,797,611	13,457,258	118,234	108,069	106,411	114,241	21,635,914	18,894,992	–	–	4,076	3,527	29,662,246	32,578,087
Off balance sheet	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total financial assets	7,797,611	13,457,258	118,234	108,069	106,411	114,241	21,635,914	18,894,992	–	–	4,076	3,527	29,662,246	32,578,087
Financial liabilities														
Long term financing														
– Secured	600,000	1,286,584	62,500	662,500	–	–	–	–	–	–	–	–	662,500	1,949,084
– Unsecured	961,895	994,659	1,656,934	3,150,683	1,061,029	559,498	–	–	–	–	–	–	3,679,858	4,704,840
Security deposits	–	–	–	–	4,606,389	4,597,090	–	–	–	–	4,461,713	2,673,317	9,068,102	7,270,407
Trade and other payables	–	–	–	–	–	–	27,081,137	22,442,695	–	–	–	–	27,081,137	22,442,695
Interest / mark up accrued	–	–	–	–	–	–	396,323	467,452	–	–	–	–	396,323	467,452
	1,561,895	2,281,243	1,719,434	3,813,183	5,667,418	5,156,588	27,477,460	22,910,147	–	–	4,461,713	2,673,317	40,887,920	36,834,478
Off balance sheet														
Capital commitments	–	–	–	–	–	–	7,783,955	5,236,878	–	–	–	–	7,783,955	5,236,878
Others	–	–	–	–	–	–	414,552	85,109	–	–	–	–	414,552	85,109
	–	–	–	–	–	–	8,198,507	5,321,987	–	–	–	–	8,198,507	5,321,987
Total financial liabilities	1,561,895	2,281,243	1,719,434	3,813,183	5,667,418	5,156,588	35,675,967	28,232,134	–	–	4,461,713	2,673,317	49,086,427	42,156,465

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

Notes to the Accounts

For the year ended 30 June 2008

47.1 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 Rupees 29,662,246 thousand (2007: Rupees 32,578,087 thousand), the financial assets which are subject to credit risk amounted to Rupees 17,379,694 thousand (2007: Rupees. 20,296,990 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.

e) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain healthier capital ratios in order to support its business and maximize shareholders value. The company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust dividend payments to the shareholders, return on capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes from the previous year. The company monitors capital using gearing ratio, which is debt divided by equity plus net debt. Debt represent long-term loans (including current portion) obtained by the Company as referred to in note 6 and 7. Total capital employed includes 'total equity' as shown in the balance sheet plus debt. Under the World Bank loan covenant the Company is required maintain a gearing ratio of 70% debt and 30% equity at maximum. The Company's strategy, which was unchanged from last year, was to maintain optimal capital structure in order to minimise cost of capital.

Notes to the Accounts
For the year ended 30 June 2008

The gearing ratio as at year ended 30 June 2008 and 30 June 2007 is as follows:

	Note	2008	2007
		(Rupees in thousand)	
Debt	(6 & 7)	4,342,358	6,653,924
Equity		17,138,849	16,289,475
Total capital employed		21,481,207	22,943,399
Gearing ratio		20.21%	29.00%

47.2 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.

48. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on 27 September 2008 by the Board of Directors of the Company.

49. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on 27 September 2008 has proposed a cash dividend in respect of the year ended 30 June 2008 of Rupees 3.50 per share (2007: Rupees 3.00 per share). 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.

50. CORRESPONDING FIGURES

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

– Compensated absences amounting Rupees 21,028 thousand as at 30 June 2007 has been reclassified from current assets to non-current assets;

– Pension fund amounting Rupees 142,056 thousand as at 30 June 2007 has been reclassified from non-current liabilities to non-current assets; and

– Gratuity fund amounting Rupees 108,328 thousand as at 30 June 2007 has been reclassified from non-current liabilities to non-current assets.

51. GENERAL

Figures have been rounded off to the nearest thousand of Rupees.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

Notes

Form of Proxy
Sui Northern Gas Pipelines Limited

I ______________________________ of ______________________________

being a member of SUI NORTHERN GAS PIPELINES LIMITED and holder of ______________________________

ordinary shares vide Registered Folio/CDC Participant I.D. No. ______________________________

hereby appoint Mr. /Mrs./Miss. ______________________________

who is a member of the Company ______________________________

or failing whom Mr./Mrs./Miss ______________________________

who is also a member of the Company vide Registered Folio/CDC Participant I.D. No. ______________________________

as my proxy to attend and vote for me and on my behalf at the 45th Annual General Meeting of the Company to be held on Thursday, October 30, 2008 at 10:30 a.m. and at any adjournment thereof.

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

Signature on Rupees Five Revenue Stamp

Witnesses:

1.	Signature ______________	2.	Signature ______________
	Name ______________		Name ______________
	Address ______________		Address ______________
	______________		______________
	CNIC No. ______________		CNIC No. ______________

NOTES

1. The Proxy Form must be signed across Rupees Five revenue stamp and it should be deposited in the office of the Company 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 authorize 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 authorized 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

To

The Company Secretary

Sui Northern Gas Pipelines Ltd.

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P.O. Box No. 56, Lahore-54000 Pakistan

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Faisalabad

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Ph: 041-9210033-35 Fax: 041-9210037

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VANTAGE