Audited Financial Statements 2009

Sui Northern Gas Pipelines Limited

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 ("the Company") for the year ended 30 June 2009, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub–Regulation (xiii a) of Listing Regulations 35 (Previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N–269 dated 19 January 2009 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2009.

Riaz Ahmad & Co.	**Ford Rhodes Sidat Hyder & Co.**
Chartered Accountants	Chartered Accountants

September 28, 2009
LAHORE

Auditors' Report to the Members

We have audited the annexed balance sheet of SUI NORTHERN GAS PIPELINES LIMITED as at 30 June 2009 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 2009 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 attention to Note 2.19 to the financial statements, which explains that during the year ended 30 June 2009, the Company's return before taxation, interest and other charges on debts is less than minimum required return.

Riaz Ahmad & Co.	**Ford Rhodes Sidat Hyder & Co.**
Chartered Accountants	Chartered Accountants
Muhammad Atif Mirza	Naseem Akbar

September 28, 2009
LAHORE

Balance Sheet

as at June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital 1,500,000,000 (2008: 1,500,000,000) ordinary shares of Rupees 10 each		15,000,000	15,000,000
Issued, subscribed and paid up capital	3	5,491,053	5,491,053
Revenue reserves		10,656,463	11,647,796
Total equity		16,147,516	17,138,849
Non–current liabilities			
Long term financing:			
Secured	4	–	62,500
Unsecured	5	1,798,312	2,717,963
Security deposits	6	11,439,969	9,068,102
Deferred credit	7	32,000,133	31,386,548
Deferred tax	8	8,178,211	7,562,412
Employee benefits	9	392,249	336,667
		53,808,874	51,134,192
Current liabilities			
Trade and other payables	10	49,785,736	27,416,384
Interest / mark–up accrued	11	552,160	396,323
Short term borrowing	12	950,858	–
Current portion of long term financing	13	1,102,980	1,561,895
		52,391,734	29,374,602
Total liabilities		106,200,608	80,508,794
TOTAL EQUITY AND LIABILITIES		122,348,124	97,647,643
Contingencies and commitments	14		

The annexed notes 1 to 49 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

Balance Sheet

as at June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
ASSETS			
Non–current assets			
Property, plant and equipment	15	78,345,432	62,025,792
Intangible assets	16	270,845	168,825
Investment in an associate company	17	4,900	4,900
Long term loans	18	235,060	224,645
Employee benefits	19	347,547	357,140
Long term deposits and prepayments	20	7,482	7,138
		79,211,266	62,788,440
Current assets			
Stores and spare parts	21	2,171,953	2,287,084
Stock in trade – gas in pipelines		783,362	525,370
Trade debts	22	25,706,362	18,757,385
Loans and advances	23	136,766	148,403
Trade deposits and short term prepayments	24	93,573	95,428
Interest accrued		13,634	40,988
Other receivables	25	11,176,987	2,235,441
Taxation – net	26	1,302,429	764,521
Sales tax recoverable		434,915	1,356,339
Short term investments	27	–	511,096
Cash and bank balances	28	1,316,877	8,137,148
		43,136,858	34,859,203
TOTAL ASSETS		122,348,124	97,647,643

ARIF SAEED
Director

Profit and Loss Account

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
Gas sales	29	160,714,737	123,404,537
Add: Differential margin		8,219,094	750,496
		168,933,831	124,155,033
Cost of gas sold	30	151,337,339	109,107,461
Gross profit		17,596,492	15,047,572
Rental and service income	31	990,101	916,351
Surcharge and interest on gas sales arrears	32	1,200,822	703,328
Amortization of deferred credit	7	1,096,033	790,289
		3,286,956	2,409,968
		20,883,448	17,457,540
Operating expenses:			
Distribution cost	33	15,011,529	11,797,778
Administrative expenses	34	1,723,200	1,379,080
		16,734,729	13,176,858
		4,148,719	4,280,682
Other operating expenses	35	2,975,305	957,194
		1,173,414	3,323,488
Other operating income	36	1,210,008	1,446,568
Operating profit		2,383,422	4,770,056
Finance cost	37	653,182	789,247
Profit before taxation and share from associate		1,730,240	3,980,809
Share in profit of associate – before tax	17	–	422
Profit before taxation		1,730,240	3,981,231
Taxation	38	799,704	1,484,541
Profit after taxation		930,536	2,496,690
Earnings per share – basic and diluted (Rupees)	44	1.69	4.55

The annexed notes 1 to 49 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

Cash Flow Statement

for the year ended June 30, 2009

	Note	2009	2008
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	39	14,748,162	6,875,036
Finance cost paid		(426,044)	(713,183)
Income tax paid		(721,817)	(1,304,641)
Employee benefits / contributions paid		(672,932)	(766,229)
Net increase in security deposits		2,371,867	1,797,695
Receipts against government grants and consumer contributions		1,625,722	7,877,457
Net decrease / (increase) in Investments at fair value through profit or loss		524,228	(500,000)
Net increase in long term loans		(16,844)	(18,695)
Net increase in long term deposits and prepayments		(344)	(732)
Net cash from operating activities		17,431,998	13,246,708
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on property, plant and equipment		(22,138,990)	(16,932,167)
Capital expenditure on intangible assets		(121,533)	(30,876)
Proceeds from sale of property, plant and equipment		46,520	21,176
Return on bank deposits		377,058	1,163,528
Net cash used in investing activities		(21,836,945)	(15,778,339)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing – unsecured		108,912	883,581
Short term borrowing – net		950,858	–
Repayment of long term financing – unsecured		(963,394)	(833,231)
Repayment of long term financing – secured		(600,000)	(1,286,584)
Dividend paid		(1,911,700)	(1,641,215)
Net cash used in financing activities		(2,415,324)	(2,877,449)
Net decrease in cash and cash equivalents		(6,820,271)	(5,409,080)
Cash and cash equivalents at the beginning of the year		8,137,148	13,546,228
Cash and cash equivalents at the end of the year	28	1,316,877	8,137,148

The annexed notes 1 to 49 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

Statement of Changes in Equity

for the year ended June 30, 2009

	Share capital	REVENUE RESERVES General reserve	Dividend equalization reserve	Unappro–priated profit	Total	Total equity
	(R u p e e s	i n	t h o u s a n d)			
Balance as at 01 July 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 ended 30 June 2008	–	–	–	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
Dividend for the year ended 30 June 2008 @ Rupees 3.50 per ordinary share of Rupees 10 each	–	–	–	(1,921,869)	(1,921,869)	(1,921,869)
Net profit for the year ended 30 June 2009	–	–	–	930,536	930,536	930,536
Balance as at 30 June 2009	5,491,053	4,127,682	480,000	6,048,781	10,656,463	16,147,516

The annexed notes 1 to 49 form an integral part of these financial statements.

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

1. THE COMPANY AND ITS OPERATIONS

Sui Northern Gas Pipelines Limited (the Company) is a public limited company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984) and 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

2.1 BASIS OF PREPARATION

a) Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS's) 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.

b) Accounting Convention

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.

c) 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:

- **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.

- **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.

- **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.

d) Standard and interpretation that is effective in current year

During the year ended 30 June 2009, IFRS 7 'Financial Instruments: Disclosures' and IFRIC 14 'IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction' became effective.

- IFRS 7 'Financial Instruments: Disclosures'. The Securities and Exchange Commission of Pakistan (SECP) vide S.R.O 411(I) / 2008 dated 28 April 2008 notified the adoption of IFRS 7. IFRS 7 is mandatory for Company's accounting period beginning on or after the date of notification i.e 28 April 2008. IFRS 7 has superseded IAS 30 'Disclosures in Financial Statements of Banks and Similar Financial Institutions' and disclosure requirements of IAS 32 'Financial Instruments: Presentation'. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

- IFRIC 14 provides guidance on assessing the limit in IAS 19 'Employee Benefits' on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Company's financial statements.

e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant

There are certain other new standards, interpretations and amendments to published approved certain accounting standards that are mandatory for Company's accounting periods beginning on or after 01 July 2008 but are considered not to be relevant or do not have any significant impact on the Company's financial statements.

f) **Amendments to existing published approved accounting standards and interpretations that are relevant but not effective**

The following amendments to existing published approved accounting standards and interpretations are mandatory for the Company's accounting periods beginning on or after 01 July 2009:

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment has expanded the disclosures required in respect of fair value measurements recognized in the statement of financial position. Moreover, amendments have also been made to the liquidity risk disclosures. Such amendments are not expected to have any significant impact on the Company's financial statements other than increase in disclosures.

- 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 18 'Transfers of Assets from Customers' (to be applied prospectively to transfers of assets from customers received on or after 01 July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). This interpretation is not expected to have any impact on the financial statements of the Company.

- There are other amendments resulting from annual improvement project initiated by International Accounting Standards Board in May 2008 and April 2009, specifically in IAS 7 'Cash Flow Statement', IAS 16 'Property, Plant and Equipment', IAS 19 'Employee Benefits', IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', IAS 23 'Borrowing Costs' and IAS 28 'Investment in Associates', that are considered relevant to the Company's financial statements. The management is in the process of evaluating the impact of these changes on the Company's financial statements.

g) **Standards, interpretations and amendments to published approved accounting standards that are not relevant and not yet effective**

Exemption from applicability of IFRIC 4 'Determining whether an Arrangement contains a Lease'

International Financial Reporting Interpretation Committee (IFRIC) of the International Accounting Standards Board (IASB) issued IFRIC 4 which requires determination of whether an arrangement is, or contains a lease based on the substance of the arrangement. According to IFRIC 4, if an arrangement conveys a right to use the asset to lessee and the fulfilment of the arrangement is dependent on the use of the specific asset then the arrangement is or contains a lease.

During the year, the Securities and Exchange Commission of Pakistan (SECP) vide its Circular No. 21/2009 dated 22 June 2009 has exempted the application of International Financial Reporting Interpretation Committee (IFRIC) 4 'Determining whether an Arrangement contains a Lease' for all such companies where the date of such agreements with other entities were executed on or before 30 June 2010. However, the SECP made it mandatory for such companies to disclose the impacts of the application of IFRIC 4 on the results of the companies. Consequently, the Company has also been exempted from the application of IFRIC 4 while preparing its financial statements.

The Company reviewed various pipeline rental agreements executed in previous years and has determined that two pipeline rental agreements relating to certain gas transmission pipelines contain embedded leases and are to be recognized as leases in terms of IFRIC 4 and IAS 17 'Leases'.

Under IFRIC 4, the consideration required to be made by the lessee i.e. Sui Northern Gas Pipelines Limited for the right to use the assets is to be accounted for as a finance lease under IAS 17. If the Company were to follow IFRIC 4 and IAS 17, the effects on the financial statements would be as follows:

	2009	2008
	Rupees in thousand	
Effect on profit and loss account		
Decrease in cost of gas sold	414,269	446,872
Increase in depreciation on operating fixed assets	150,984	150,984
Increase in finance cost on assets subject to finance lease	360,476	366,592
Effect on balance sheet		
Increase in liabilities against assets subject to finance lease		
– long term portion	2,212,825	2,261,907
– current portion	49,255	42,101
Increase in written down value of assets subject to finance lease	1,509,839	1,660,823

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 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.

2.3 Taxation

Current

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

Deferred

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

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

2.4 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 medical facility to all employees and their dependents after their retirement. 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 valuation.

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 2009 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.

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.

2.5 Trade and other payables

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

2.6 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.

2.7 Fixed assets

2.7.1 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 less impairment loss, if any. 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 2.9.

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 15. 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.

2.7.2 Intangible assets

Intangible assets, which are non–monetary assets without physical substance, are recognized at cost, which comprises purchase price, non–refundable purchase taxes and other directly attributable expenditures relating to their implementation and customization. After initial recognition an intangible asset is carried at cost less accumulated amortization at the rates given in Note 16 and impairment loss, 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.

2.8 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 loss. 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.

2.9 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.

2.10 Investment in an associate company

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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 Financial instruments

Financial instruments comprise loans and advances, deposits, interest accrued, trade debts, other receivables, cash and bank balances, long term financings, short term borrowing, interest / markup accrued 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.

2.19 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 i.e. Oil and Gas Regulatory Authority (OGRA) as discussed in paragraph below and as a result the return for the year on the aforesaid basis works out to 3.74% (2008: 9.30%).

Among other disallowances made by OGRA, the Company has also incorporated the effect of Unaccounted for Gas (UFG), which represents the volume difference of gas purchases and sales, amounting to Rupees 4,601,150 thousand (2008: Rupees 2,711,000 thousand) which is in excess of the UFG benchmark allowed by the OGRA. The UFG for the year was 8.05% (2008: 8.04%) against the average bench mark of 5.15% (2008: 5.55%) allowed by OGRA. The increase in UFG disallowance was mainly due to increase in average gas purchase price.

2.20 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.

2.21 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.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2009	2008		2009	2008
(Number of shares)			(Rupees in thousand)	
121,146,000	121,146,000	Ordinary shares of Rupees 10 each, issued as fully paid for cash	1,211,460	1,211,460
3,329,000	3,329,000	Ordinary shares of Rupees 10 each, issued as fully paid for consideration other than cash	33,290	33,290
424,630,339	424,630,339	Ordinary shares of Rupees 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

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

	2009	2008
	(Number of shares)	
Askari Bank Limited	1,851,128	1,287,022
Central Insurance Company Limited	4,746,100	8,595,000
Dawood Corporation (Private) Limited	1,500,000	–
Dawood Hercules Chemicals Limited	100,442,350	100,442,350
Dawood Lawrencepur Limited	8,272,470	8,272,470
Faysal Bank Limited	3,586,200	–
Industrial Development Bank of Pakistan	281,618	281,618
MCB Bank Limited	47,770,364	47,770,364
National Investment Trust Limited	141,933	141,933
Pakistan Industrial Development Corporation (Private) Limited	33,042,891	33,042,891
Saudi Pak Industrial and Agricultural Investment Company (Private) Limited	1,252,950	1,030,800
Sui Southern Gas Company Limited	2,090,195	2,090,195
	204,978,199	202,954,643

4. LONG TERM FINANCING – Secured

	Note	2009	2008
		(Rupees in thousand)	
From banking companies:			
Standard Chartered Bank (Pakistan) Limited Syndicate [SCBL–1]		–	350,000
Standard Chartered Bank (Pakistan) Limited Syndicate [SCBL–2 (a)]		–	125,000
Standard Chartered Bank (Pakistan) Limited Syndicate [SCBL–2 (b)]	(4.1)	62,500	187,500
		62,500	662,500
Less: Current portion shown under current liabilities	(13)	62,500	600,000
		–	62,500

4.1

Lender	Mark–up rate	No. of installments outstanding Half yearly	Repayment commencement date	Maturity date
SCBL–2 (b)	Six month KIBOR + 0.9 % per annum	1	15 January 2006	15 July 2009

4.2 The above finance is secured by way of first pari passu and floating charge on the present and future fixed assets of the Company.

5. LONG TERM FINANCING – Unsecured

	Note	2009	2008
		(Rupees in thousand)	
From banking companies / financial institution:			
World Bank loans – Foreign currency	(5.1)	943,532	1,515,460
Other loans – Local currency:			
– Loans	(5.2)	1,485,699	1,584,676
– Overdue interest on medium term loan	(5.3)	409,561	579,722
		1,895,260	2,164,398
		2,838,792	3,679,858
Less: Current portion shown under current liabilities			
World Bank loans – Foreign currency		616,879	571,929
Other loans – Local currency:			
– Loans		178,076	144,441
– Overdue interest on medium term loan		245,525	245,525
	(13)	1,040,480	961,895
		1,798,312	2,717,963

5.1 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	2009	2008
					(Rupees in thousand)	
	(%)	(Nos.)				
3252 – PAK	0.5% above the base cost of qualified borrowing	3	01 March 1996 / 01 September 2010		1,752,379	2,387,922
3252–1 PAK	0.5% above the base cost of qualified borrowing	3	01 March 1996/ 01 September 2010		869,732	1,193,759
				(5.1.2)	2,622,111	3,581,681
Less: Exchange risk cover guaranteed by Government of Pakistan				(5.1.3)	1,678,579	2,066,221
					943,532	1,515,460

5.1.1 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.

5.1.2 This represents outstanding loan equivalent to US Dollar 32,252 thousand (2008: US Dollar 52,517 thousand) translated at the exchange rate prevailing at balance sheet date.

5.1.3 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.

5.2 Loans

	Note	2009	2008
		(Rupees in thousand)	
From Government			
– Cash development loans	(5.2.1, 5.4 & 5.5)	948,619	1,024,188
From related parties	(5.2.2, 5.4 & 5.5)	223,506	244,590
Others	(5.2.3, 5.4 & 5.5)	313,574	315,898
		1,485,699	1,584,676

5.2.1 These have been obtained from the Federal Government and the Provincial Governments of Punjab and North West Frontier Province (NWFP) for the supply of gas to new towns. The loans aggregating to Rupees 201,964 thousand (2008: Rupees 215,761 thousand) carries mark–up at the rates ranging between 5% and 9% (2008: 5% and 9%) per annum whereas loans aggregating to Rupees 746,655 thousand (2008: Rupees 808,427 thousand) carries mark up at the rate of six month State Bank of Pakistan's (SBP's) treasury bill plus 1.2 % (2008: six month SBP's treasury bill plus 1.2%) per annum on the outstanding balance or part thereof.

5.2.2 Related parties:

	Note	2009	2008
		(Rupees in thousand)	
D.G.Khan Cement Company Limited		118,610	131,458
Packages Limited		104,896	113,132
	(5.2.3)	223,506	244,590

5.2.3 These have been obtained from certain industrial consumers for laying of gas pipelines, carrying mark–up at the rates, ranging between 0% and 2% (2008: 0% 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.

5.3 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, commenced on 30 June 2002 and does not carry any mark–up.

5.4 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 the State Bank of Pakistan' cut off yield rates prevailing at the time of initial recognition of these loans.

	2009	2008
	Rates (%)	
5.5 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 – 14.24	2.79 – 11.16

6. SECURITY DEPOSITS

	Note	2009	2008
		(Rupees in thousand)	
Consumers	(6.1 & 6.2)	11,389,885	9,028,193
Contractors – Houseline	(6.3)	50,084	39,909
		11,439,969	9,068,102

6.1 Consumer deposits represent security deposits held against amount due from consumers on account of gas sales. These are repayable on the 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% (2008: 2%) per annum on deposits aggregating to Rupees 7,102,097 thousand (2008: Rupees 5,550,594 thousand). However, in case of Liberty Power Limited having deposit of Rupees 718,000 thousand (2008: Rupees 384,000 thousand), interest rate is 1% above 3 months SBP treasury bills cut off rate subject to a floor of 7% (2008: 3 months SBP treasury bills cut off rate subject to a floor of 7%) per annum.

6.2 It includes security deposits from related parties amounting to Rupees 751,527 thousand (2008: Rupees 454,828 thousand).

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

7. DEFERRED CREDIT

	2009	2008
	(Rupees in thousand)	
Consumers' contribution against:		
– Completed jobs	14,921,724	12,410,056
– Jobs in progress	2,390,945	3,277,208
	17,312,669	15,687,264
Government grants against:		
– Completed jobs	7,193,622	4,238,679
– Jobs in progress	13,724,827	16,595,557
	20,918,449	20,834,236
	38,231,118	36,521,500
Less: Accumulated amortization:		
– Opening balance	5,134,952	4,344,663
– Amortization for the year	1,096,033	790,289
	6,230,985	5,134,952
	32,000,133	31,386,548

8 DEFERRED TAX

	Note	2009	2008
		(Rupees in thousand)	
The liability for deferred tax comprises temporary differences relating to:			
Taxable temporary differences			
Accelerated tax depreciation		9,896,263	8,460,140
Investments at fair value through profit or loss		–	3,884
		9,896,263	8,464,024
Deductible temporary differences			
Provision for doubtful debts		(746,433)	(547,357)
Minimum tax adjustment		(335,871)	(335,871)
Carry forward tax losses		(617,154)	–
Interest payable on security deposits		(11,972)	(11,665)
Unpaid trading liabilities		(6,622)	(6,719)
		(1,718,052)	(901,612)
	(8.1)	8,178,211	7,562,412

8.1 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	Carry forward tax losses	Interest payable on security deposits	Unpaid trading liabilities	Total	Net liability
		(Rupees in thousand)									
Balance as at 01 July 2007		7,246,277	–	7,246,277	(440,465)	–	–	(53,242)	–	(493,707)	6,752,570
Charged / (credited) to profit and loss account	(38)	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
Charged / (credited) to profit and loss account	(38)	1,436,123	(3,884)	1,432,239	(199,076)	–	(617,154)	(307)	97	(816,440)	615,799
Balance as at 30 June 2009		9,896,263	–	9,896,263	(746,433)	(335,871)	(617,154)	(11,972)	(6,622)	(1,718,052)	8,178,211

9. EMPLOYEE BENEFITS

	Note	2009	2008
		(Rupees in thousand)	
Medical fund		281,181	245,476
Free gas facility fund		111,068	91,191
	(9.1)	392,249	336,667

	Note	Medical fund 2009	Medical fund 2008	Free gas facility fund 2009	Free gas facility fund 2008	Total 2009	Total 2008
		(Rupees in thousand)					
9.1 Reconciliation of payable to employee benefit plans:							
Present value of funded obligation	(9.4)	3,867,672	3,339,997	1,129,929	827,146	4,997,601	4,167,143
Fair value of plan assets	(9.5)	(3,094,340)	(2,620,604)	(704,902)	(573,741)	(3,799,242)	(3,194,345)
	(9.10)	773,332	719,393	425,027	253,405	1,198,359	972,798
Unrecognized actuarial losses		(472,350)	(434,312)	(305,339)	(144,979)	(777,689)	(579,291)
Unrecognized past service cost		(19,801)	(39,605)	(8,620)	(17,235)	(28,421)	(56,840)
Net liability		281,181	245,476	111,068	91,191	392,249	336,667
9.2 Movement in net liability							
Opening liability		245,476	250,279	91,191	81,475	336,667	331,754
Charge for the year	(9.3)	292,392	257,106	109,707	94,905	402,099	352,011
Contribution paid		(256,687)	(261,909)	(89,830)	(85,189)	(346,517)	(347,098)
		281,181	245,476	111,068	91,191	392,249	336,667
9.3 Amounts recognized in profit and loss account are as follows:							
Current service cost	(9.4)	165,437	137,506	57,606	42,159	223,043	179,665
Interest on obligation	(9.4)	400,800	291,623	99,258	72,731	500,058	364,354
Expected return on plan assets	(9.5)	(314,473)	(212,385)	(68,849)	(45,641)	(383,322)	(258,026)
Net actuarial losses recognized in the year		20,824	20,558	13,077	17,041	33,901	37,599
Past service cost – Non-vested		19,804	19,804	8,615	8,615	28,419	28,419
Total included in employee benefit expense	(9.12)	292,392	257,106	109,707	94,905	402,099	352,011
Actual return on plan assets		311,736	310,752	70,161	50,331	381,897	361,083

	Note	Medical fund 2009	Medical fund 2008	Free gas facility fund 2009	Free gas facility fund 2008	Total 2009	Total 2008
		(Rupees in thousand)					
9.4 Changes in the present value of defined benefit obligation are as follows:							
Opening defined benefit obligation		3,339,997	2,916,228	827,146	727,305	4,167,143	3,643,533
Service cost	(9.3)	165,437	137,506	57,606	42,159	223,043	179,665
Interest cost	(9.3)	400,800	291,623	99,258	72,731	500,058	364,354
Actuarial losses		56,125	70,549	174,749	3,140	230,874	73,689
Benefits paid		(94,687)	(75,909)	(28,830)	(18,189)	(123,517)	(94,098)
Closing defined benefit obligation		3,867,672	3,339,997	1,129,929	827,146	4,997,601	4,167,143
9.5 Changes in the fair value of plan assets are as follows:							
Opening fair value of plan assets		2,620,604	2,123,852	573,741	456,410	3,194,345	2,580,262
Expected return	(9.3)	314,473	212,385	68,849	45,641	383,322	258,026
Actuarial gains / (losses)		(2,737)	98,367	1,312	4,690	(1,425)	103,057
Contribution by employer		256,687	261,909	89,830	85,189	346,517	347,098
Benefits paid		(94,687)	(75,909)	(28,830)	(18,189)	(123,517)	(94,098)
		3,094,340	2,620,604	704,902	573,741	3,799,242	3,194,345

9.6 Plan assets comprises of:

Medical fund

	2009 Fair Value (Rs. in 000)	2009 %	2008 Fair Value (Rs. in 000)	2008 %
Certificates of deposits	2,942,851	95.11	2,375,114	90.63
NIT units	148,623	4.80	–	–
Cash at bank	2,866	0.09	245,490	9.37
	3,094,340	100.00	2,620,604	100.00

Free gas facility fund

	2009 Fair Value (Rs. in 000)	2009 %	2008 Fair Value (Rs. in 000)	2008 %
Certificates of deposits	662,057	93.93	506,739	88.32
NIT units	40,978	5.81	–	–
Cash at bank	1,867	0.26	67,002	11.68
	704,902	100.00	573,741	100.00

9.7 Principal actuarial assumptions used (expressed as weighted average)

	Medical fund			
	2009		2008	
	Executive	Non-executive	Executive	Non-executive
Discount rate	12%	12%	12%	12%
Expected return of growth per annum in average cost of facility	9%	9%	9%	9%
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%	12%	12%

	Free gas facility fund			
	2009		2008	
	Executive	Non-executive	Executive	Non-executive
Discount rate	12%	12%	12%	12%
Expected return of growth per annum in average cost of facility	11%	11%	11%	11%
Rate of utilization of facility by future entitled employees	0%	100%	0%	100%
Expected rate of return per annum on plan assets	12%	12%	12%	12%

9.8 Calculations are based on complex mathematical model which takes into account the yield at maturity of existing investments present at the beginning of the financial year. The model also considers the expected returns on reinvestments of maturity proceeds in similar instruments (based on their yield as at the valuation date) uptill the life of related obligations.

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

	2009		2008	
	One % point increase	One % point decrease	One % point increase	One % point decrease
	(Rupees in thousand)			
Effect on the aggregate of the service cost and interest cost	74,000	(68,000)	96,000	(88,000)
Effect on defined benefit obligation	1,262,000	(1,158,000)	1,094,000	(1,004,000)

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

	Medical fund				
	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Defined benefit obligation	3,867,672	3,339,997	2,916,228	2,343,029	2,110,414
Plan assets	(3,094,340)	(2,620,604)	(2,123,852)	(1,809,144)	(1,454,032)
Deficit	773,332	719,393	792,376	533,885	656,382
Experience adjustment on plan liabilities	56,125	70,549	241,904	(32,954)	33,941
Experience adjustment on plan assets	(2,737)	98,367	(11,115)	24,249	22,684

	Free gas facility fund				
	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Defined benefit obligation	1,129,929	827,146	727,305	630,979	476,767
Plan assets	(704,902)	(573,741)	(456,410)	(361,184)	(290,310)
Deficit	425,027	253,405	270,895	269,795	186,457
Experience adjustment on plan liabilities	174,749	3,140	14,937	97,647	15,702
Experience adjustment on plan assets	1,312	4,690	11,719	4,746	4,529

9.11 Estimated future contributions

	Note	2009	2008
		(Rupees in thousand)	
Medical fund		281,181	245,476
Free gas facility fund		111,068	83,242
		392,249	328,718

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

	Note	2009	2008
Distribution cost	(33)	311,637	275,286
Administrative expenses	(34)	90,462	76,725
		402,099	352,011

10 TRADE AND OTHER PAYABLES

	Note	2009	2008
		(Rupees in thousand)	
Creditors for:			
– gas	(10.1)	45,225,670	22,445,228
– supplies	(10.2)	761,072	1,664,468
Accrued liabilities		2,668,693	1,740,666
Interest free deposits repayable on demand		25,708	19,625
Earnest money received from contractors		25,336	20,299
Mobilization and other advances		841,689	1,226,937
Exchange risk and guarantee fees payable to the Government of Pakistan		24,592	40,212
Workers' Profit Participation Fund	(10.3)	118,559	210,012
Workers' Welfare Fund		35,311	–
Unclaimed dividend		59,106	48,937
		49,785,736	27,416,384

10.1 This includes an aggregate sum of Rupees 25,393,065 thousand (2008: Rupees 10,340,652 thousand) payable to related parties.

10.2 Included herein is a sum of Rupees 8,784 thousand (2008: Rupees 46,032 thousand) payable to an associate and a sum of Rupees 4,992 thousand (2008: Rupees 2,012 thousand) payable to a related parties.

10.3 Workers' Profit Participation Fund

	Note	2009	2008
		(Rupees in thousand)	
Balance at the beginning of the year		210,012	223,837
Allocation for the year	(35)	94,092	209,531
		304,104	433,368
Interest on funds utilized in the Company's business	(37)	22,202	284
		326,306	433,652
Less: Payments to workers		110,989	1,630
Deposited into the Government treasury		96,758	222,010
		207,747	223,640
		118,559	210,012

11 INTEREST / MARK–UP ACCRUED

This includes an aggregate sum of Rupees 2,328 thousand (2008: Rupees 2,604 thousand) payable to related parties.

12 SHORT TERM BORROWING

Short term running finance facility amounting to Rupees 1,000,000 thousand obtained from Samba Bank Limited carries markup @ 3 months KIBOR plus 1.00% per annum on the balance outstanding. It is secured by way of first pari passu hypothecation charge on all present and future current assets of the Company to the extent of Rupees 1,334,000 thousand. Markup is payable on quarterly basis. The effective interest rate during the year ranged from 13.77% to 13.79%.

13 CURRENT PORTION OF LONG TERM FINANCING

	Note	2009	2008
		(Rupees in thousand)	
Long term financing – secured	(4)	62,500	600,000
Long term financing – unsecured	(5)	1,040,480	961,895
		1,102,980	1,561,895

14 CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

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

14.1.1 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 High Court for the assessment years 1980–81 through 1993–94. Pending the outcome of appeals filed by the tax department with the above referred High Court, no provision has been made in these financial statements for additional demands in respect of assessment years 1980–81 to 2002–03 and tax year 2003 which on similar basis as used in the past by the tax authorities, would amount to Rupees 313,505 thousand (2008: Rupees 343,532 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

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 1,002,204 thousand (2008: Rupees 1,046,791 thousand), since the Company has strong grounds against the assessments framed by the tax authorities.

c) During the year, a demand of Rupees 67,998 thousand relating to excess compensation for delayed refunds for assessment years 1988–89, 1990–91, 1991–92 and 1996–97 has been raised by the Additional Commissioner of Income Tax by rectifying the orders previously issued under section 171 of the repealed Ordinance. In this regard, appeal filed by the Company before the Commissioner Income Tax (Appeals) CIT(A) is pending adjudication. However, no provision has been made in these financial statements as the management is confident of a favourable outcome of the appeal.

d) During the year, amendment proceedings earlier initiated by Additional Commissioner Income Tax (ACIT) for tax year 2007 were finalized raising an additional demand of Rupees 1,560,239 thousand against the Company. The Company's appeal against the amendment order was not accepted by CIT(A) in principle terms. The Company has filed an appeal against the order of CIT(A) before ITAT which has also granted a stay against the recovery of the said demand. The Company's management and legal counsel are confident as subject matter of the assessment was decided in Company's favour in respect of assessment years upto and including assessment year 2002–03, therefore, there is a strong likelihood that ITAT will extend relief to the Company and accordingly, no provision has been made in these financial statements.

e) The Company has not recognized / acknowledged an amount of Rupees 3,709,139 thousand representing amount of show cause notices issued by Sales Tax authorities as the Company's management and the legal counsel are confident that the outcome of show cause notices will be in favour of the Company.

f) The Company has filed appeals before the Customs, Excise and Sales Tax Appellate Tribunal against the orders of Collector of Sales Tax (Appeals) regarding various issues as apportionment of input tax, admissibility of input tax on natural gas lost in ruptures etc. The amount under adjudication is Rupees 42,438 thousand. Pending the outcome of appeals, no provision against sales tax recoverable has been recognized in the financial statements based on the opinion of legal counsel of the Company.

14.1.2 Others

14.1.2.1 Claims against the Company not acknowledged as debts amount to Rupees 391,396 thousand (2008: Rupees 385,078 thousand).

a) Included in claims against the Company not acknowledged as debt are claims by the contractors, suppliers and consumers aggregating to Rupees 76,313 thousand (2008: Rupees 76,313 thousand). Pending the outcome of these claims, which are with 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 (2008: 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 19 September 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 these financial statements for the amount of bonus as the Company's legal advisor is of the view that there is a reasonably fair chance that the case will be decided in favour of the Company.

14.1.2.2 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, aggregating to Rupees 273,452 thousand (2008: Rupees 440,815 thousand). Liabilities in respect of indemnity bonds may arise on items not consumed within five years from the date of receipt. Such liability, if any, will be treated as part of the cost of such items.

14.1.2.3 The Company has not recognized in these financial statements late payment surcharge of Rupees 1,305,624 thousand (2008: Nil) in respect of over due payments against purchase of gas from certain gas suppliers i.e. Oil and Gas Development Company Limited, Pakistan Petroleum Limited, Sui Southern Gas Company Limited and Government Holdings (Private) Limited as the corresponding interest on gas sales arrears of Rupees 1,367,308 thousand (2008: Rupees 658,979 thousand) claimed by the Company according to the terms of the contract with WAPDA has also not been recognized as both are expected to be settled as part of inter circular debt being resolved by the Ministry of Finance, Government of Pakistan as decided in the meeting headed by Secretary Finance on this issue. To date, interest has not been paid by WAPDA. In previous years, the Company had charged WAPDA interest on overdue payments according to the 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.

In view thereof, the Company's management considers it prudent not to recognize the interest on gas sales arrears receivable and the late payment surcharge payable as income and expense respectively till such time, that this issue is resolved. However, in case the interest on gas sales arrears and late payment surcharge are recognized as income and expense, there would be no effect on the profit for the year as the differential margin recoverable from the Government of Pakistan would be adjusted by the net amount.

14.2 Commitments

	2009	2008
	(Rupees in thousand)	
a) Capital Commitments		
Capital expenditure contracted for at balance sheet date but not yet incurred is as follows:		
Property, plant and equipment	332,151	2,689,400
Intangible assets	202,385	228,317
Others	3,844,739	5,094,555
	4,379,275	8,012,272
b) Other Commitments	1,142,633	414,552

15 FIXED ASSETS

	Note	2009	2008
		(Rupees in thousand)	
Property, plant and equipment			
Operating fixed assets	(15.1)	63,395,893	51,895,290
Capital work in progress	(15.5)	14,949,539	10,130,502
		78,345,432	62,025,792

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

	Operating Fixed Assets														
	Freehold land	Leasehold land	Buildings and civil construction on freehold land	Buildings on leasehold land	Transmission system	Distribution system	Consumer meter and town border stations	Telecomm–unication system and facilities	Compressor stations and equipment	Plant and machinery	Computers and ancillary equipment	Furniture and equipment	Tools and accessories	Transport vehicles	Total
	Rupees in thousand														
At 01 July 2007															
Cost	658,968	392	878,368	8,461	35,268,266	23,926,365	10,293,575	2,205,751	5,281,485	2,961,206	229,009	166,624	125,072	781,365	82,784,907
Accumulated depreciation	–	–	(557,566)	(8,461)	(16,688,725)	(9,061,355)	(4,807,434)	(2,072,496)	(2,678,517)	(2,405,005)	(122,759)	(126,369)	(105,285)	(627,912)	(39,261,884)
Net Book Value	658,968	392	320,802	–	18,579,541	14,865,010	5,486,141	133,255	2,602,968	556,201	106,250	40,255	19,787	153,453	43,523,023
Year ended 30 June 2008															
Opening net book value	658,968	392	320,802	–	18,579,541	14,865,010	5,486,141	133,255	2,602,968	556,201	106,250	40,255	19,787	153,453	43,523,023
Additions	141,430	–	64,671	–	6,523,235	4,329,312	1,280,306	29,037	111,176	413,340	94,108	22,855	10,866	283,837	13,304,173
Disposals															
Cost	–	–	–	–	(135,609)	–	(24,695)	(41,379)	(100)	(27,241)	(10,633)	(3,156)	–	(37,710)	(280,523)
Accumulated depreciation	–	–	–	–	135,609	–	24,695	41,068	80	27,197	10,425	2,404	–	36,478	277,956
	–	–	–	–	–	–	–	(311)	(20)	(44)	(208)	(752)	–	(1,232)	(2,567)
Depreciation charge	–	–	(37,097)	–	(1,929,246)	(1,386,656)	(926,263)	(44,410)	(256,792)	(196,965)	(33,839)	(14,283)	(15,928)	(87,860)	(4,929,339)
Closing net book value	800,398	392	348,376	–	23,173,530	17,807,666	5,840,184	117,571	2,457,332	772,532	166,311	48,075	14,725	348,198	51,895,290
At 30 June 2008															
Cost	800,398	392	943,039	8,461	41,655,892	28,255,677	11,549,186	2,193,409	5,392,561	3,347,305	312,484	186,323	135,938	1,027,492	95,808,557
Accumulated depreciation	–	–	(594,663)	(8,461)	(18,482,362)	(10,448,011)	(5,709,002)	(2,075,838)	(2,935,229)	(2,574,773)	(146,173)	(138,248)	(121,213)	(679,294)	(43,913,267)
Net Book Value	800,398	392	348,376	–	23,173,530	17,807,666	5,840,184	117,571	2,457,332	772,532	166,311	48,075	14,725	348,198	51,895,290
Year ended 30 June 2009															
Opening net book value	800,398	392	348,376	–	23,173,530	17,807,666	5,840,184	117,571	2,457,332	772,532	166,311	48,075	14,725	348,198	51,895,290
Additions	234,108	–	232,235	–	5,158,453	5,960,659	2,807,439	66,936	2,210,944	395,418	112,907	39,784	39,751	214,676	17,473,310
Disposals															
Cost	–	–	–	–	–	–	(26,428)	(3,635)	–	(29,280)	(12,470)	(2,788)	–	(69,384)	(143,985)
Accumulated depreciation	–	–	–	–	–	–	26,428	3,635	–	29,280	12,470	2,570	–	68,000	142,383
	–	–	–	–	–	–	–	–	–	–	–	(218)	–	(1,384)	(1,602)
Depreciation charge	–	–	(49,839)	–	(2,352,723)	(1,734,995)	(1,027,093)	(36,272)	(310,257)	(240,417)	(43,642)	(18,631)	(11,979)	(145,257)	(5,971,105)
Closing net book value	1,034,506	392	530,772	–	25,979,260	22,033,330	7,620,530	148,235	4,358,019	927,533	235,576	69,010	42,497	416,233	63,395,893
At 30 June 2009															
Cost	1,034,506	392	1,175,274	8,461	46,814,345	34,216,336	14,330,197	2,256,710	7,603,505	3,713,443	412,921	223,319	175,689	1,172,784	113,137,882
Accumulated depreciation	–	–	(644,502)	(8,461)	(20,835,085)	(12,183,006)	(6,709,667)	(2,108,475)	(3,245,486)	(2,785,910)	(177,345)	(154,309)	(133,192)	(756,551)	(49,741,989)
Net Book Value	1,034,506	392	530,772	–	25,979,260	22,033,330	7,620,530	148,235	4,358,019	927,533	235,576	69,010	42,497	416,233	63,395,893
Rate of depreciation in %	–	–	6	6	6–10	6	6–10	15	6–20	10–20	15	15–20	33.33	25	

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

	Note	2009	2008
		(Rupees in thousand)	
Distribution costs	(33)	5,714,956	4,713,634
Administrative expenses	(34)	145,613	98,533
Capitalized during the year			
Transmission system		68,175	90,787
Distribution system		32,747	1,796
Capital work in progress		9,614	24,589
		110,536	117,172
		5,971,105	4,929,339

15.1.2 The details of certain assets disposed off during the year are as follows:

Description	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Mode of disposal	Sold to
	(Rupees)					
Honda City Car 1300CC CNG	830,500	606,056	224,444	233,450	Service rules	Mr. Zahoor Ahmed, GM (Telecom)
Suzuki Cultus Car 993CC	590,368	147,589	442,779	515,753	Service rules	Mr. Saad Ullah Khan, CE (Corrosion)
Suzuki Cultus Car 993CC	568,000	295,825	272,175	280,457	Service rules	Mr. Abdul Qayyum Sabri, CA (A & I)
Suzuki Cultus Car 993CC	563,000	211,122	351,878	376,509	Service rules	Mr. Ahmad Shafiq, Incharge (EC & U)

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

15.2 Land amounting to Rupees 719,349 thousand (2008: Rupees 547,498 thousand) is subject to the restriction under The Land Acquisition Act, 1894 and cannot be sold by the Company without the approval from the respective Provincial Government.

15.3 Pipelines amounting to Rupees 337,574 thousand (2008: Rupees 135,609 thousand), having Rupees Nil book value were uplifted during the year. However, pipelines uplifted during the year were used as part of material for other transmission jobs.

15.4 The cost of the assets as on 30 June 2009 include fully depreciated assets amounting to Rupees 15,884,453 thousand (2008: Rupees 14,020,344 thousand) but are still in use of the Company.

15.5 Capital work in progress

	Note	2009	2008
		(Rupees in thousand)	
Transmission system		2,333,874	1,612,305
Distribution system		6,127,208	4,369,797
Stores and spare parts held for capital expenditure	(15.5.1)	6,304,123	3,855,372
Advances for land and other capital expenditure		184,334	293,028
		14,949,539	10,130,502

15.5.1 Stores and spare parts held for capital expenditure

	2009	2008
Stores and spare parts including in transit Rupees 636,653 thousand (2008: Rupees 377,139 thousand)	6,318,264	3,867,898
Less: Provision for obsolescence	14,141	12,526
	6,304,123	3,855,372

16 INTANGIBLE ASSETS

	Note	2009	2008
Computer softwares and ERP system	(16.1)	11,803	29,441
Intangible assets under development		259,042	139,384
		270,845	168,825

16.1 Computer softwares and ERP system

	Note	2009	2008
		(Rupees in thousand)	
Reconciliation of the carrying amounts at the beginning and end of the year is as follows:			
Balance as at 01 July			
Cost		57,445	26,569
Accumulated amortization		28,004	8,856
Net book value		29,441	17,713
Movement during the year			
Additions during the year		1,875	30,876
Amortization charge for the year	(34)	19,513	19,148
Balance as at 30 June			
Cost		59,320	57,445
Accumulated amortization		47,517	28,004
Net book value		11,803	29,441
Rate of amortization in %		33.33	33.33

17 INVESTMENT IN AN ASSOCIATE COMPANY

	Note	2009	2008
Inter State Gas Systems (Private) Limited 490,000 (2008: 490,000) ordinary shares of Rupees 10 each	(17.1)	4,900	4,900

17.1 Reconciliation of carrying amount of investment in associate:

	2009	2008
Opening balance	4,900	4,978
Share of profit for the year before tax	–	422
Share of tax:		
Current	–	(422)
Prior year	–	(78)
	–	(78)
	4,900	4,900

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

	2009	2008
	(Rupees in thousand)	
Assets	27,713	71,017
Liabilities	17,713	61,017
Net assets	10,000	10,000
Revenue	87,557	171,120
% of interest held	49	49

18 LONG TERM LOANS – Considered good

	Note	Employee welfare 2009	Employee welfare 2008	House building 2009	House building 2008	Car 2009	Car 2008	Motorcycle / Scooter 2009	Motorcycle / Scooter 2008	Total 2009	Total 2008
		(Rupees in thousand)									
Executives	(18.1)	–	–	3,513	6,008	69	173	–	–	3,582	6,181
Other employees		101,045	54,173	187,318	223,291	–	32	17,689	20,269	306,052	297,765
		101,045	54,173	190,831	229,299	69	205	17,689	20,269	309,634	303,946
Amount due within one year:											
Executives	(23)	–	–	1,808	2,580	69	115	–	–	1,877	2,695
Other employees	(23)	15,044	8,769	46,038	55,477	–	59	11,615	12,301	72,697	76,606
		15,044	8,769	47,846	58,057	69	174	11,615	12,301	74,574	79,301
		86,001	45,404	142,985	171,242	–	31	6,074	7,968	235,060	224,645
18.1 Reconciliation of balance due from executives:											
Opening balance		–	–	6,008	4,186	173	99	–	–	6,181	4,285
Disbursements		–	–	357	5,095	70	331	–	–	427	5,426
		–	–	6,365	9,281	243	430	–	–	6,608	9,711
Less: Repayments / Adjustments		–	–	2,852	3,273	174	257	–	–	3,026	3,530
Closing balance		–	–	3,513	6,008	69	173	–	–	3,582	6,181

18.2 Employee welfare, house building and car loans are repayable in 10 years, whereas motorcycle / scooter loans are repayable in 3 years. Interest at the rate ranging between 1% and 10% (2008: 1% and 10%) per annum is charged on these loans. Loans to employees are secured by deposit of title deeds and joint registration of vehicles.

18.3 The maximum amount due from the Chief Executive and executives at any month end during the year was Rupees NIL (2008: Rupees NIL) and Rupees 6,366 thousand (2008: Rupees 9,339 thousand) respectively.

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

	2009	2008
	(Rate %)	
18.5 Effective interest rates	6.84 to 18	6.84 to 18

19 EMPLOYEE BENEFITS

	Note	2009	2008
		(Rupees in thousand)	
Pension fund		319,690	333,295
Gratuity fund		468	(628)
		320,158	332,667
Compensated absences		27,389	24,473
	(19.1)	347,547	357,140

	Note	Pension fund 2009	Pension fund 2008	Gratuity fund 2009	Gratuity fund 2008	Compensated absences 2009	Compensated absences 2008	Total 2009	Total 2008
		Rupees in thousand							
19.1 Reconciliation of receivable from / (payable to) employee benefit plans:									
Fair value of plan assets	(19.5)	4,035,345	3,481,655	1,572,019	1,459,639	244,556	206,387	5,851,920	5,147,681
Present value of funded obligations	(19.4)	(3,401,782)	(3,157,782)	(1,687,170)	(1,685,720)	(217,167)	(181,914)	(5,306,119)	(5,025,416)
	(19.9)	633,563	323,873	(115,151)	(226,081)	27,389	24,473	545,801	122,265
Unrecognized actuarial (gains) / losses		(338,889)	(40,608)	115,619	225,453	–	–	(223,270)	184,845
Unrecognized past service cost		25,016	50,030	–	–	–	–	25,016	50,030
Net asset / (liability)		319,690	333,295	468	(628)	27,389	24,473	347,547	357,140
19.2 Movement in net asset / (liability)									
Opening asset / (liability)		333,295	142,056	(628)	(108,328)	24,473	21,028	357,140	54,756
Charge for the year	(19.3)	(130,321)	(17,103)	(189,778)	(79,844)	(15,908)	(19,799)	(336,007)	(116,746)
Contribution paid		211,716	208,342	95,874	187,544	18,824	23,244	326,414	419,130
Transfer of funds		(95,000)	–	95,000	–	–	–	–	–
		319,690	333,295	468	(628)	27,389	24,473	347,547	357,140
19.3 Amounts recognized in profit and loss account are as follows:									
Current service cost		(170,609)	(137,170)	(119,813)	(97,062)	(20,477)	(17,883)	(310,899)	(252,115)
Interest on obligation	(19.4)	(378,934)	(251,615)	(202,287)	(136,037)	(21,829)	(16,485)	(603,050)	(404,137)
Expected return on plan assets	(19.5)	417,799	363,535	175,157	159,012	24,767	18,588	617,723	541,135
Net actuarial (losses) / gains recognized in the year		26,437	33,161	(42,835)	(5,757)	24,832	(4,019)	8,434	23,385
Past service cost		(25,014)	(25,014)	–	–	(23,201)	–	(48,215)	(25,014)
Total included in employee benefit expense		(130,321)	(17,103)	(189,778)	(79,844)	(15,908)	(19,799)	(336,007)	(116,746)
Actual return on plan assets		582,160	407,816	112,094	168,062	38,169	20,517	732,423	596,395
19.4 Changes in the present value of defined benefit obligation are as follows:									
Opening 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)
Service cost		(170,609)	(137,170)	(119,813)	(97,062)	(20,477)	(17,883)	(310,899)	(252,115)
Interest cost	(19.3)	(378,934)	(251,615)	(202,287)	(136,037)	(21,829)	(16,485)	(603,050)	(404,137)
Actuarial (losses) / gains		160,357	(416,809)	132,072	(313,324)	11,430	(5,948)	303,859	(736,081)
Past service cost		–	–	–	–	(23,201)	–	(23,201)	–
Benefits paid		145,186	163,960	188,578	221,066	18,824	23,244	352,588	408,270
Closing defined benefit obligation		(3,401,782)	(3,157,782)	(1,687,170)	(1,685,720)	(217,167)	(181,914)	(5,306,119)	(5,025,416)

	Note	Pension fund 2009	Pension fund 2008	Gratuity fund 2009	Gratuity fund 2008	Compensated absences 2009	Compensated absences 2008	Total 2009	Total 2008
				(Rupees in thousand)					
19.5 Changes in the fair value of plan assets are as follows:									
Opening fair value of plan assets		3,481,655	3,029,457	1,459,639	1,325,099	206,387	185,870	5,147,681	4,540,426
Expected return	(19.3)	417,799	363,535	175,157	159,012	24,767	18,588	617,723	541,135
Actuarial gains / (losses)		164,361	44,281	(65,073)	9,050	13,402	1,929	112,690	55,260
Contributions by employer		211,716	291,342	95,874	104,544	18,824	23,244	326,414	419,130
Benefits paid		(145,186)	(163,960)	(188,578)	(221,066)	(18,824)	(23,244)	(352,588)	(408,270)
Amount transferred from pension fund to gratuity fund		(95,000)	(83,000)	95,000	83,000	–	–	–	–
		4,035,345	3,481,655	1,572,019	1,459,639	244,556	206,387	5,851,920	5,147,681

	Pension fund 2009 Fair Value (Rs. in 000)	Pension fund 2009 %	Pension fund 2008 Fair Value (Rs. in 000)	Pension fund 2008 %	Gratuity fund 2009 Fair Value (Rs. in 000)	Gratuity fund 2009 %	Gratuity fund 2008 Fair Value (Rs. in 000)	Gratuity fund 2008 %
19.6 Plan assets comprises of:								
Defence Saving Certificates	112,155	2.78	290,335	8.34	69,092	4.39	133,220	9.13
Mutual funds	116,244	2.88	160,460	4.61	64,952	4.13	88,285	6.05
Certificates of deposits	3,661,112	90.73	2,844,000	81.69	1,379,476	87.64	1,159,000	79.40
Pakistan Investment Bonds	116,000	2.87	116,000	3.33	28,000	1.77	28,000	1.92
Cash at Bank	29,834	0.74	70,860	2.03	32,509	2.07	51,134	3.50
	4,035,345	100.00	3,481,655	100.00	1,574,029	100.00	1,459,639	100.00

	Compensated absences 2009 Fair Value (Rs. in 000)	Compensated absences 2009 %	Compensated absences 2008 Fair Value (Rs. in 000)	Compensated absences 2008 %
Certificates of deposits	243,407	99.53	206,089	99.86
Cash at Bank	1,149	0.47	298	0.14
	244,556	100.00	206,387	100.00

	Pension fund				Gratuity fund			
	2009		2008		2009		2008	
	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive	Executive	Non-executive
19.7 Principal actuarial assumptions used (expressed as weighted average)								
Expected increase in salaries	11%	11%	11%	11%	11%	11%	11%	11%
Discount rate	12%	12%	12%	12%	12%	12%	12%	12%
Expected rate of return per annum on plan assets	12%	12%	12%	12%	12%	12%	12%	12%

	Compensated absences			
	2009		2008	
	Executive	Non-executive	Executive	Non-executive
Expected increase in salaries	11%	11%	11%	11%
Discount rate	12%	12%	12%	12%
Expected return of salary increase	12%	12%	12%	12%

Pension fund provide pension increases in line with the pension enhancements announced by the Government. Pension increase assumption of 6% per annum used in the actuarial valuation is a long term economic assumption and is based on the long term inflation expectation of Government which is 6% – 8%.

19.8 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.

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

	Pension fund				
	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Plan assets	4,035,345	3,481,655	3,029,457	2,392,993	1,969,714
Defined benefit obligation	(3,401,782)	(3,157,782)	(2,516,148)	(2,389,599)	(2,112,738)
Surplus / (deficit)	633,563	323,873	513,309	3,394	(143,024)
Experience adjustment on plan liabilities	160,357	(416,809)	120,036	(58,657)	(152,721)
Experience adjustment on plan assets	(164,361)	44,281	319,398	174,370	184,962

	Gratuity fund				
	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Plan assets	1,572,019	1,459,639	1,325,099	1,127,642	954,101
Defined benefit obligation	(1,687,170)	(1,685,720)	(1,360,363)	(1,272,873)	(1,209,628)
Deficit	(115,151)	(226,081)	(35,264)	(145,231)	(255,527)
Experience adjustment on plan liabilities	132,072	(313,324)	(16,618)	2,073	(35,997)
Experience adjustment on plan assets	63,060	9,050	101,723	60,144	44,661

	Compensated absences				
	2009	2008	2007	2006	2005
	(Rupees in thousand)				
Plan assets	244,556	206,387	164,842	161,090	153,081
Defined benefit obligation	(217,167)	(181,914)	(185,870)	(165,522)	(149,617)
Surplus / (deficit)	27,389	24,473	(21,028)	(4,432)	3,464
Experience adjustment on plan liabilities	(11,430)	(5,948)	7,181	4,025	11,545
Experience adjustment on plan assets	13,402	1,929	5,451	2,439	2,334

19.10 Estimated future contributions

	Note	2009	2008
		(Rupees in thousand)	
Pension fund		275,904	308,573
Gratuity fund		96,641	117,898
		372,545	426,471

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

	Note	2009	2008
Distribution cost	(33)	232,676	105,350
Administrative expenses	(34)	81,820	11,396
Capital work in progress		21,511	–
		336,007	116,746

20 LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2009	2008
Security deposits		4,270	4,076
Prepayments		19,330	18,013
		23,600	22,089
Less: Current portion of prepayments	(24)	14,886	13,719
Provision against prepayments		1,232	1,232
		16,118	14,951
		7,482	7,138

21 STORES AND SPARE PARTS

	Note	2009	2008
Stores including in transit amounting to Rupees 117,728 thousand (2008: Rupees 1,136,381 thousand)	(21.1)	1,025,571	1,790,835
Spare parts including in transit amounting to Rupees 535,400 thousand (2008: Rupees 91,192 thousand)	(21.1)	1,158,489	504,702
		2,184,060	2,295,537
Less: Provision for obsolescence		12,107	8,453
		2,171,953	2,287,084

21.1 This includes a sum of Rupees 61,631 thousand (2008: Rupees 39,295 thousand) which represents the cost of stores and spares not in possession of the Company.

	Note	2009	2008
		(Rupees in thousand)	
22 TRADE DEBTS			
Considered good:			
Secured	(22.1)	15,840,226	11,977,460
Unsecured	(22.1)	9,857,342	6,741,872
Accrued gas sales		8,794	38,053
		25,706,362	18,757,385
Considered doubtful		1,996,970	1,428,181
		27,703,332	20,185,566
Less: Provision for doubtful debts	(22.2)	(1,996,970)	(1,428,181)
		25,706,362	18,757,385

22.1 These include amount due from related parties:

	2009	2008
Nishat Mills Limited	119,466	96,023
Sui Southern Gas Company Limited	26,305	24,963
ICI Pakistan Limited	117,412	91,385
Packages Limited	70,539	90,018
Dawood Hercules Chemicals Limited	220,555	188,179
D.G. Khan Cement Company Limited	50,595	72,451
Mustehkum Cement Company Limited	–	7,968
Service Industries Limeted	7,197	–
The Crescent Textile Mills Limited	–	4,514
	612,069	575,501

22.2 Provision for doubtful debts

	2009	2008
Balance as on 01 July	1,428,181	1,122,774
Provision during the year	568,789	305,407
Balance as on 30 June	1,996,970	1,428,181

22.3 As at 30 June 2009, trade debts of Rupees 8,675,092 thousand (2008 : Rupees 5,437,556 thousand) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

	2009	2008
	(Rupees in thousand)	
1 to 6 months	6,589,099	3,954,356
More than 6 months	2,085,993	1,483,200
	8,675,092	5,437,556

22.4 As at 30 June 2009, trade debts of Rupees 1,996,970 thousand (2008 : Rupees 1,428,181 thousand) were impaired and provided for. The ageing analysis of these trade debts is as follows:

	Note	2009	2008
		(Rupees in thousand)	
Upto 1 month		58,682	–
1 to 6 months		165,375	46,386
More than 6 months		1,772,913	1,381,795
		1,996,970	1,428,181

23 LOANS AND ADVANCES

	Note	2009	2008
Loans due from employees – considered good			
Executives	(18)	1,877	2,695
Other employees	(18)	72,697	76,606
		74,574	79,301
Advances – considered good			
– other employees		3,783	4,365
– suppliers and contractors	(23.1)	58,409	64,737
Advances to suppliers and contractors – considered doubtful		3,227	3,227
Less: Provision for doubtful advances		3,227	3,227
		–	–
		136,766	148,403

23.1 It includes advances of Rupees 709 thousand (2008: Rupees 220 thousand) from related parties.

24 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

	Note	2009	2008
		(Rupees in thousand)	
Trade deposits and prepayments		100,977	103,999
Less: Provision for doubtful deposits		22,290	22,290
		78,687	81,709
Current portion of long term prepayments	(20)	14,886	13,719
		93,573	95,428

25 OTHER RECEIVABLES

	Note	2009	2008
		(Rupees in thousand)	
Exchange differences on long term loans recoverable from the Government of Pakistan		1,080,249	395,959
Excise duty recoverable	(25.1)	108,945	108,945
Less: Provision for doubtful recoverable		108,945	108,945
		–	–
Differential margin recoverable		10,057,891	1,800,101
Others	(25.2)	38,847	39,381
		11,176,987	2,235,441

25.1 Included is an amount of Rupees 7,230 thousand (2008: Rupees 7,230 thousand) relating to Dawood Hercules Chemicals Limited (a related party).

25.2 This Includes an amount of Rupees 3,993 thousand (2008: Rupees 3,815 thousand) receivable from Sui Southern Gas Company Limited (a related party).

26 TAXATION – net

	Note	2009	2008
		(Rupees in thousand)	
Income tax refundable		1,302,429	1,390,822
Less: Provision for taxation		–	626,301
		1,302,429	764,521

27 SHORT TERM INVESTMENTS

	Note	2009	2008
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	(27.1)	–	11,096
		–	511,096

27.1 Fair value of these investments were determined using redemption / repurchase price.

28 CASH AND BANK BALANCES

	Note	2009	2008
		(Rupees in thousand)	
Cash at banks			
On deposit accounts, including remittances in transit and cheques under clearance of Rupees 2,347,386 thousand (2008: Rupees 1,901,469 thousand)	(28.1)	1,123,277	7,718,310
On current accounts, including remittances in transit and cheques under clearance of Rupees 284,017 thousand (2008: Rupees 260,352 thousand)		191,120	417,692
		1,314,397	8,136,002
Cash in hand		2,480	1,146
		1,316,877	8,137,148

28.1 Rate of profit on bank deposits ranges between 2.50% and 17.50% (2008: 2% and 13.06%) per annum.

29 GAS SALES

	2009	2008
	(Rupees in thousand)	
Gross sales	183,712,065	139,823,038
Less: Sales tax	22,997,166	16,418,265
Discount	162	236
	22,997,328	16,418,501
	160,714,737	123,404,537

30 COST OF GAS SOLD

	Note	2009	2008
		(Rupees in thousand)	
Opening stock of gas in pipelines		525,370	473,404
Gas purchases:			
Southern system		112,695,850	87,511,218
Northern system		13,968,479	10,786,476
Cost equalization adjustment	(30.1)	28,320,835	13,216,857
		154,985,164	111,514,551
		155,510,534	111,987,955
Less: Gas internally consumed		3,389,833	2,355,124
Closing stock of gas in pipelines		783,362	525,370
		4,173,195	2,880,494
Cost of gas sold		151,337,339	109,107,461

30.1 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.

31 RENTAL AND SERVICE INCOME

	2009	2008
	(Rupees in thousand)	
Transmission charges exclusive of sales tax of Rupees 805 thousand (2008: Rupees 1,544 thousand)	5,032	10,424
Meter rental exclusive of sales tax of Rupees 141,750 thousand (2008: Rupees 121,135 thousand)	885,936	810,860
Testing and reconnection charges	10,988	10,947
Income from repair work	88,145	84,120
	990,101	916,351

32 SURCHARGE AND INTEREST ON GAS SALES ARREARS

	2009	2008
	(Rupees in thousand)	
Interest on gas sales arrears	653,815	290,459
Surcharge on late payments	547,007	412,869
	1,200,822	703,328

32.1 Interest on gas sales arrears at the rate of 1.5% (2008: 1.5%) per month upto one year and thereafter 2% (2008: 2%) per month is charged on over due amounts.

32.2 One time late payment surcharge is charged to domestic consumers on over due amounts at the rate of 10% (2008: 10%) per annum.

33 DISTRIBUTION COSTS

	Note	2009	2008
		(Rupees in thousand)	
Salaries, wages and benefits	(9.12, 19.11, 33.1)	3,386,017	2,790,849
Employees medical and welfare	(9.12)	391,175	351,508
Stores and spares consumed		532,229	271,738
Fuel and power		3,237,498	2,243,290
Repairs and maintenance		577,539	418,670
Rent, rates, electricity and telephone		114,188	107,226
Insurance		118,786	99,892
Travelling		107,801	87,848
Stationery and postage		76,373	42,334
Dispatch of gas bills		51,085	48,936
Transportation charges		414,959	285,137
Provision for doubtful debts		568,789	305,407
Professional services		3,728	16,640
Gathering charges of gas bills collection data		23,439	26,172
Stores and spares written off		22,733	1,829
Provision for obsolete stores and spare parts		9,114	9,767
Gas bills collection charges		238,538	222,507
Security expenses		112,951	169,009
Service charges	(33.2)	36,888	93,239
Advertisement		58,523	69,832
Depreciation	(15.1.1)	5,714,956	4,713,634
Others		109,751	148,000
		15,907,060	12,523,464
Less: Allocated to fixed capital expenditure		895,531	725,686
		15,011,529	11,797,778

33.1 Included in salaries, wages and benefits is a sum of Rupees 70,888 thousand (2008: Rupees 73,645 thousand) in respect of the Company's contribution to the Employees Provident Fund.

33.2 This represents reimbursable expenses of Rupees 36,888 thousand (2008: Rupees 93,170 thousand) to Inter State Gas Systems (Private) Limited (an associate company).

34 ADMINISTRATIVE EXPENSES

	Note	2009	2008
		(Rupees in thousand)	
Salaries, wages and benefits	(9.12, 19.11, 34.1)	1,121,697	935,456
Employees medical and welfare	(9.12)	116,664	105,920
Stores and spares consumed		57,333	51,716
Fuel and power		18,451	16,276
Repairs and maintenance		53,882	40,799
Rent, rates, electricity and telephone		37,831	22,461
Insurance		6,737	7,827
Travelling		31,221	26,451
Stationery and postage		29,522	25,295
Transportation charges		39,962	24,460
Professional services	(34.2)	26,352	28,270
Loans to deceased employees written off		–	26
Security expenses		29,895	19,781
OGRA fee and expenses		85,685	76,750
Advertisement		1,960	1,353
Depreciation	(15.1.1)	145,613	98,533
Amortization of intangible assets	(16.1)	19,513	19,148
Others		69,373	59,536
		1,891,691	1,560,058
Less: Allocated to fixed capital expenditure		168,491	180,978
		1,723,200	1,379,080

34.1 Included in salaries, wages and benefits is Rupees 24,164 thousand (2008: Rupees 24,349 thousand) in respect of the Company's contribution to the Employees Provident Fund.

34.2 Professional services

	Note	2009	2008
		(Rupees in thousand)	
Statutory audit:			
Ford Rhodes Sidat Hyder & Co.		450	325
Riaz Ahmad & Co.		450	325
		900	650
Other certifications including half yearly review:			
Ford Rhodes Sidat Hyder & Co.		320	230
Riaz Ahmad & Co.		260	190
		580	420
Out of pocket expenses:			
Ford Rhodes Sidat Hyder & Co.		200	175
Riaz Ahmad & Co.		200	175
		400	350
		1,880	1,420

35 OTHER OPERATING EXPENSES

	Note	2009	2008
Workers' profit participation fund	(10.3)	94,092	209,531
Workers' welfare fund		35,311	–
Exchange loss on gas purchases		2,774,869	624,792
Loss on initial recognition of financial assets at fair value		27,750	22,362
Donations	(35.1)	10,102	100,509
Others		33,181	–
		2,975,305	957,194

35.1 For donations made during the year, none of the directors or their spouses have any interest in any of the donees.

36 OTHER OPERATING INCOME

	Note	2009	2008
		(Rupees in thousand)	
Income from financial assets			
Return on bank deposits		349,704	1,131,760
Gain on initial recognition of financial liabilities at fair value		15,704	51,684
Interest on staff loans		27,594	26,446
Gain on sale of investment		13,132	–
Unrealized fair value gain on revaluation of investments at fair value through profit or loss		–	11,096
		406,134	1,220,986
Income from assets other than financial assets			
Net gain on sale of fixed assets		37,493	18,609
Insurance claims	(36.1)	836	3,095
		38,329	21,704
Others			
Gain on construction contracts		655,371	105,132
Bad debt recoveries		15,668	30,506
Liquidated damages recovered		29,138	28,927
Sale of scrap		55,152	27,832
Credit balances written back		3,865	6,061
Sale of tender documents		1,006	1,788
Sale of condensate		–	561
Miscellaneous		5,345	3,071
		765,545	203,878
		1,210,008	1,446,568

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

37 FINANCE COSTS

	Note	2009	2008
		(Rupees in thousand)	
Mark–up/ interest/ commitment charges on:			
Long term financing:			
– Secured		52,554	143,588
– Unsecured		269,138	391,836
Short term borrowing		39,980	–
Late payment to creditors		18,059	–
Late payment of gas development surcharge		1,234	–
Security deposits		171,024	127,179
Workers' profit participation fund	(10.3)	22,202	284
		574,191	662,887
Exchange risk coverage fee		78,991	126,360
		653,182	789,247

38 TAXATION

	Note	2009	2008
Current year			
Current tax	(26 & 38.1)	–	626,301
Share of tax from associate		–	422
		–	626,723
Deferred	(8.1)	615,799	809,842
		615,799	1,436,565
Prior year			
Current tax	(38.2)	183,905	47,898
Share of tax from associate		–	78
		183,905	47,976
		799,704	1,484,541

38.1 During the year, the Company suffered a taxable loss and accordingly, no tax for the year is payable by the Company.

38.2 During last years, Assistant Commissioner of Income Tax (ACIT) had concluded the reassessment proceeding for tax years 2001–2002 and 2002–2003 and raised a demand on account of admissibility of tax credit under section 107AA of the repealed Ordinance. The Company's management has contested the reassessment orders before the Commissioner of Income Tax (Appeal) [CIT (A)] who upheld the decision taken by ACIT. The Company's management has contested the order of CIT (A) before the Income Tax Appellate Tribunal (ITAT). The proceedings have not yet been concluded, however, provision for the said amount has been made in these financial statements.

38.3 Tax charge reconciliation

	2009	2008
	(%)	
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	2.08	0.96
Effect of changes in current tax of prior years	10.63	1.20
Others	(1.49)	0.12
	11.22	2.28
Average effective tax rate charged to profit and loss account	46.22	37.28

39 CASH GENERATED FROM OPERATIONS

	Note	2009	2008
		(Rupees in thousand)	
Profit before taxation and share of associate		1,730,240	3,980,809
Adjustment for non–cash charges and other items:			
Depreciation		5,860,569	4,812,167
Amortization of intangible assets		19,513	19,148
Employee benefits		713,142	455,399
Amortization of deferred credit		(1,096,033)	(790,289)
Net gain on sale of fixed assets		(37,493)	(18,609)
Unrealized fair value gain on revaluation of investments at fair value through profit or loss		–	(11,096)
Net gain on disposal of investment		(13,132)	–
Finance cost		653,182	789,247
Return on bank deposits		(349,704)	(1,131,760)
Provision for doubtful debts		568,789	305,407
Stores and spares written off		22,733	1,829
Gain on initial recognition of financial liabilities at fair value		(15,704)	(51,684)
Loss on initial recognition of financial assets at fair value		27,750	22,362
Interest income / expense due to impact of IAS 39		(16,594)	(15,880)
Working capital changes	(39.1)	6,680,904	(1,492,014)
		14,748,162	6,875,036

39.1 Working capital changes

	2009	2008
(Increase) / decrease in current assets:		
Stores and spare parts	115,131	(1,197,558)
Stock in trade – gas in pipelines	(257,992)	(51,966)
Trade debts	(7,517,766)	(2,833,724)
Loans and advances	6,910	42,889
Trade deposits and short term prepayments	1,855	(62,135)
Other receivables	(8,020,122)	(2,009,338)
	(15,671,984)	(6,111,832)
Increase in current liabilities		
Trade and other payables	22,352,888	4,619,818
	6,680,904	(1,492,014)

40 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	
	2009	2008	2009	2008
Number of persons	1	1	287	303
	(Rupees in thousand)			
Managerial remuneration	5,400	5,020	262,358	247,708
Contribution to provident, pension and gratuity fund	–	–	55,526	62,175
Housing and utilities	2,970	2,300	129,953	127,028
Special allowance	1,080	–	–	–
Leave encashment	–	–	2,270	2,281
Club subscription	5	4	43	56
	9,455	7,324	450,150	439,248

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

The aggregate amount charged in the financial statements in respect of directors' fee paid to twelve (2008: fifteen) directors is Rupees 81 thousand (2008: Rupees 69 thousand). No other remuneration/compensation was paid to directors during the year.

41 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 associate 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	2009	2008
			(Rupees in thousand)	
Associate company	Services	(33.2)	36,888	93,170
Other related parties	Gas sales		6,466,971	5,620,768
	Purchase of materials		1,084,232	732,820
	Purchase of gas		80,510,505	51,195,791
	Profit received on bank deposits		71,853	151,739
	Insurance expense		138,855	119,779
	Insurance claimed received		9,880	18,151
	Dividend paid		704,106	528,851
	Transportation charges		414,269	446,872
	Transmission charges		2,108	10,424
Post employment benefit plans	Contribution to defined contribution plans	(41.1)	100,844	118,035
	Contribution to defined benefit plans	(41.1)	672,932	766,228

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

42 UNUTILIZED CREDIT FACILITIES

The Company has the facilities for opening of letters of credit amounting to Rupees 6,500,000 thousand (2008: Rupees 6,500,000 thousand) out of which Rupees 2,357,210 thousand (2008: Rupees 3,637,450 thousand) remained unutilized at the end of the year.

43 CAPACITY AND ACTUAL PERFORMANCE

The average daily gas transmitted during the year was 504,034 hm3 (2008: 511,868 hm3) against the designed capacity of 459,234 hm3 (2008: 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.

44 EARNINGS PER SHARE - BASIC AND DILUTED

		Note	2009	2008
Net profit for the year	Rupees in thousand		930,536	2,496,690
Average ordinary shares in issue	Number of shares	(3)	549,105,339	549,105,339
Basic earnings per share	Rupees		1.69	4.55

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.

45 FINANCIAL RISK MANAGEMENT

45.1 Financial risk factors

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

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company's exposure to currency risk arising from currency exposure to the United States Dollar (USD) on amounts payable to the gas suppliers and long term financing is efficiently hedged. 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. Similarly, the exchange gain / loss on payments to gas suppliers is passed on to the Government due to the reason more fully explained in note 2.19 to the financial statements.

The following significant exchange rates were applied during the year:

	2009	2008
Rupees per US Dollar		
Average rate	79.0007	63.0387
Reporting date rate	81.1000	68.0001

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to commodity and equity price risk.

(iii) Interest rate risk

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

The Company has no significant long–term interest–bearing assets. The Company's interest rate risk arises from long term financing, short term borrowing and security deposits. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	2009	2008
	(Rupees in thousand)	
Fixed rate instruments		
Financial assets		
Loans to employees	309,634	303,946
Financial liabilities		
Long term financing	739,044	776,249
Security deposits	7,102,098	5,550,594
Floating rate instruments		
Financial assets		
Bank balances – deposit accounts	1,123,277	7,718,310
Financial liabilities		
Long term financing	1,752,687	2,986,387
Security deposits	718,000	384,000
Short term borrowing	950,858	–

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates, at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 14,939 thousand lower / higher (2008: Rupees 28,261 thousand higher / lower) respectively, mainly as a result of higher / lower interest expense on floating rate borrowings in the year ended 30 June 2009 and higher / lower interest income in the year ended 30 June 2008. This analysis is prepared assuming the amounts of floating rate instruments outstanding at balance sheet dates were outstanding for the whole year.

(b) **Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2009	2008
	(Rupees in thousand)	
Loans and advances	313,417	308,311
Deposits	17,115	16,939
Trade debts	25,706,362	18,757,385
Interest accrued	13,634	40,988
Other receivables	1,118,835	435,077
Short term investments	–	511,096
Bank balances	1,314,397	8,136,002
	28,483,760	28,205,798

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate. The table below shows the bank balances held with some major counterparties at the balance sheet date:

	Rating			2009	2008
	Short Term	Long term	Agency	(Rupees in thousand)	
Banks					
MCB Bank Limited	A1+	AA+	PACRA	156,263	314,550
National Bank of Pakistan	A-1+	AAA	JCR - VIS	64,463	629,566
Habib Bank Limited	A-1+	AA+	JCR - VIS	59,883	113,305
United bank Limited	A-1+	AA+	JCR - VIS	48,658	39,646
Allied Bank Limited	A1+	AA	PACRA	56,307	57,066
Askari Bank Limited	A1+	AA	PACRA	106,137	1,214,636
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	198,700	1,108,167
Bank Al-Habib Limited	A1+	AA+	PACRA	70,718	19,538
Faysal Bank Limited	A-1+	AA	PACRA	10,725	8,052
Bank Alfalah Limited	A1+	AA	PACRA	87,316	1,248,478
Royal Bank of Scotland Limited	A1+	AA	PACRA	11,272	21,409
The Bank of Punjab	A1+	AA-	PACRA	98,242	2,214,199
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	15,174	7,330
NIB Bank Limited	A1+	AA-	PACRA	36,695	44,220
				1,020,553	7,040,162

The company's exposure to credit risk and impairment losses selected to trade debts is disclosed in Note 22.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non–performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

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

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Inspite the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk to be low.

The table below analysis the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equates to their carrying balances as the impact of discounting is not significant.

	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years
	(Rupees in thousand)				
30 June 2009					
Long term financing	2,901,292	4,211,721	1,587,475	1,673,123	951,123
Trade and other payables	48,628,981	48,628,981	48,628,981	–	–
Short term borrowing	950,858	1,016,325	1,016,325	–	–
	52,481,131	53,857,027	51,232,781	1,673,123	951,123

	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 5 years	Over 5 years
	(Rupees in thousand)				
30 June 2008					
Long term financing	4,342,358	5,176,453	1,302,544	2,617,257	1,256,652
Trade and other payables	25,854,198	25,854,198	25,854,198	–	–
	30,196,556	31,030,651	27,156,742	2,617,257	1,256,652

The contractual cash flows relating to the above financial liabilities have been determined on the basis of markup rates effective as at 30 June. The rates of mark up have been disclosed in respective notes to the financial statements.

45.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

45.3 Financial instruments by categories

	Loans and receivables
	(Rupees in thousand)
As at 30 June 2009	
Assets as per balance sheet	
Loans and advances	313,417
Deposits	17,115
Trade debts	25,706,362
Interest accrued	13,634
Other receivables	1,118,835
Cash and bank balances	1,316,877
	28,486,240

	Financial liabilities at amortized cost
	(Rupees in thousand)
Liabilities as per balance sheet	
Long term financing	2,901,292
Security deposits	11,439,969
Accrued mark–up	552,160
Short term borrowing	950,858
Trade and other payables	48,628,981
	64,473,260

	Loans and receivables	Assets at fair value through profit and loss	Total
	(Rupees in thousand)		
As at 30 June 2008			
Assets as per balance sheet			
Loans and advances	308,311	–	308,311
Deposits	16,939	–	16,939
Trade debts	18,757,385	–	18,757,385
Interest accrued	40,988	–	40,988
Other receivables	435,077	–	435,077
Short term investment	–	511,096	511,096
Cash and bank balances	8,137,148	–	8,137,148
	27,695,848	511,096	28,206,944

	Financial liabilities at amortized cost
	(Rupees in thousand)
Liabilities as per balance sheet	
Long term financing	4,342,358
Security deposits	9,068,102
Trade and other payables	25,854,198
Accrued mark–up	396,323
	39,660,981

45.4 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 financing (including current portion) plus short term borrowing obtained by the Company as referred to in note 4, 5 and 12. 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.

The gearing ratio as at year ended 30 June 2009 and 30 June 2008 is as follows:

	Note	2009	2008
		(Rupees in thousand)	
Debt	(4, 5 & 12)	3,852,150	4,342,358
Equity		16,147,516	17,138,849
Total capital employed		19,999,666	21,481,207
Gearing ratio		19.26%	20.21%

46 DATE OF AUTHORIZATION FOR ISSUE

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

47 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on 28 September 2009 has proposed a cash dividend in respect of the year ended 30 June 2009 of Rupees NIL per share (2008: Rupees 3.50 per share) and NIL % bonus share (2008: NIL) in respect of the year ended 30 June 2009. 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 end.

48 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:

- Intangible assets under development' amounting to Rupees 139,384 thousand have been reclassified from 'capital work in progress' to 'intangible assets' for better presentation.

49 GENERAL

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

A. RASHID LONE
Chief Executive

ARIF SAEED
Director

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 vide Registered Folio/CDC Participant I.D. No. ______________
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 46th Annual General Meeting of the Company to be held on Friday, October 30, 2009 at 10:30 A.M. and/or at any adjournment thereof.

(Signature on Rupees Five Revenue Stamp)

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

WITNESSES:

1. Signature ______________
   Name ______________
   Address ______________
   ____
   CNIC ☐☐☐☐☐–☐☐☐☐☐☐☐–☐
   or Passport No. ______________

2. Signature ______________
   Name ______________
   Address ______________
   ____
   CNIC ☐☐☐☐☐–☐☐☐☐☐☐☐–☐
   or Passport No. ______________

Date: ______________

NOTES

1. The Proxy Form must be signed across Rupees Five revenue stamp and it should be deposited in the Company's Registered Office 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 or Passport 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

SUI NORTHERN GAS PIPELINES LIMITED

Gas House, 21-Kashmir Road, P.O. Box No. 56, Lahore.
Phones (+92-42) 99201451-60 & 99082000
Fax (+92-42) 99201369

Head Office

Gas House
21 Kashmir Road,
P.O. Box No. 56,
Lahore - 54000, Pakistan.
Ph: (+92-42) 99080000 & 99082000
Fascimile: (+92-42) 99201369 & 99201302
Website: www.sngpl.com.pk

Regional Offices

Abbottabad
Mansehra Road.
Ph: 0992-9310071-72, 9310077-78
Fax: 0992-9310070

Bahawalpur
2-A Railway Road.
Ph: 062-9255022-24, Fax: 062-9255256

Faisalabad
Sargodha Road.
Ph: 041-9210033-35, Fax: 041-9210037

Gujranwala/Sialkot
M. A. Jinnah Road.
Ph: 055-9200481-84, Fax: 055-9200486

Islamabad
28-30 Sector I-9, Industrial Area.
Ph: 051-9257710-19, Fax: 051-9257770

Lahore
21-Industrial Area,
Gurumangat Road, Gulberg III
Ph: 042-99263361-80, Fax: 042-99263400

Multan
Piran Ghaib Road.
Ph: 061-9220081-86, Fax: 061-9220090

Peshawar
Plot 33, Sector B II,
Hayatabad, Phase V.
Ph: 091-9217748-49, Fax: 091-9217758

www.sngpl.com.pk

Sui Northern Gas Pipelines Limited
Gas House, 21 Kashmir Road,
P.O. Box No. 56, Lahore 54000, Pakistan.
Tel: (+92-42) 99201451-60 & 99082000
Fax: (+92-42) 99201369 & 99201302
Email: info@sngpl.com.pk

Designed & Printed by VANTAGE www.vantagepakistan.com