

# Notes to the Financial Statements

*For the year ended 30 June 2006*

## **1 STATUS AND NATURE OF BUSINESS**

Sui Southern Gas Company Limited is a public limited company incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The main activity of the company is transmission and distribution of natural gas in Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including the manufacturing and sale of gas meters and construction contracts for laying of pipelines.

## **2 STATEMENT OF COMPLIANCE**

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

## **3 ACCOUNTING CONVENTION**

These financial statements have been prepared under the historical cost convention, except for certain investments stated in note 20 which are carried at their fair values. These financial statements are presented in Pakistan Rupees which is the company's functional currency.

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

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

Judgements made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 49 to these financial statements.

## **4 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE**

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 July 2006 and are not expected to have a significant effect on company's financial statements or not relevant to the company:

- Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures
- IAS 19 (Amendment) Employee Benefits Contractual Agreement between the Multi Employer Plan and Defined Benefit Plans Disclosures
- IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intergroup Transactions
- IAS 39 (Amendment) The Fair Value Option
- IAS 21 (Amendment) The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a specific market - Waste Electrical and Electronic Equipment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

## **5 SIGNIFICANT ACCOUNTING POLICIES**

### **5.1 Property, plant and equipment**

#### **5.1.1 Cost**

Property, plant and equipment except freehold land, leasehold land and capital work in progress are stated at cost less accumulated depreciation. Freehold land, leasehold land and capital work in progress are stated at cost.

#### **5.1.2 Depreciation**

##### *Compressors and transmission lines*

Depreciation is calculated under the straight-line method over the estimated remaining useful lives of assets. Depreciation on these assets is charged from the dates these projects are available for intended use up to the date these are disposed off.

##### *Other operating assets*

Depreciation on other operating assets is calculated so as to write off the assets over their estimated remaining useful lives under the straight-line method.

Depreciable value of an asset is written off over its estimated service life from the month the asset is available for use service till the month it is disposed off or fully depreciated, except for assets sold to employees under the service rules, in which case, depreciation is charged until the date of disposal.

Upto the last year, full year's depreciation was charged on additions whereas no depreciation was charged on assets disposed off during the year. From the current year, the company has decided to charge depreciation from the month of addition till the month of disposal of assets. Further, useful lives of certain assets and residual value of assets have been revised.

Had the estimate not been changed, the depreciation expense would have been higher and carrying value of property, plant and equipment would have been lower by Rs. 176.176 million.

#### **5.1.2.1 Depreciation is charged at rates mentioned in the notes 18.2, 18.3, 18.4 and 18.5 to these financial statements.**

### **5.1.3** *Subsequent expenditure (including normal repairs and maintenance)*

Expenditure incurred to replace a component of an item of operating assets is capitalised and the asset so replaced is retired. Other subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the items can be measured reliably. All other expenditure (including repairs and normal maintenance) is recognized in the profit and loss account as an expense when it is incurred.

### **5.1.4** *Intangible assets*

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight line basis over their estimated useful lives.

### **5.1.5** *Borrowing costs*

Borrowing costs incurred on long term finances attributable for the construction of qualifying assets are capitalised up to the date the respective assets are available for the intended use. All other mark-up, interest and other related charges are taken to the profit and loss account currently.

### **5.1.6** *Gains and losses on disposal*

Gains and losses on disposal are taken to the profit and loss account currently.

### **5.1.7** *Leased assets*

Leased assets in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses, if any. Lease payments are accounted for as described in note 5.7 to these financial statements.

Depreciation on assets subject to finance lease is recognized in the same manner as for owned operating assets.

## **5.2** *Investments*

### *Available for sale*

- All investments classified as available-for-sale except associates and subsidiary company, are initially recognized at cost inclusive of transaction costs and subsequently quoted investments are marked to market using the last quoted rate at the close of the financial year. Fair value of unquoted investments are determined based on appropriate valuation method if practicable to determine it. Any resultant gains or losses being recognized directly in equity.

When the carrying amount of the investment is impaired the cumulative gain or loss recognised in equity is removed from equity and recognised in the profit and loss. Impairment loss once recognised through profit and loss account is not reversed.

Upto 30 June 2005, reversal of impairment losses on available for sale investments were recognized in profit and loss account. However, in view of the revised International Accounting Standard "Financial Instruments: Recognition and Measurement" effective from financial period beginning on or after 1 January 2005, impairment losses recognised in profit and loss account shall not be reversed through profit and loss account. There is no financial impact of this change in the current and prior years.

### *Associated / subsidiary*

Investments in associates and subsidiaries (not held for disposal purpose) are carried at cost less impairment losses, if any.

### *Held to maturity*

Financial assets with fixed or determinable payments and fixed maturity for which the Company has ability to hold them till maturity are classified as held to maturity investments. These investments are initially recognized in the balance sheet at cost inclusive of transaction cost if any and subsequently stated at amortised cost using effective interest rate method.

### *Date of recognition*

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognized at the settlement date. Settlement date is the date on which the Company settle the purchase or sale of the investment.

## **5.3 Stores, spares and loose tools**

These are valued at cost determined under the moving average basis less impairment losses, if any. Goods-in-transit are valued at cost incurred up to the balance sheet date.

## **5.4 Stock-in-trade**

### *Gas in pipelines*

Stock of gas in transmission pipelines is valued at the lower of cost, determined on weighted average basis, and net realisable value.

### *Meter manufacturing division*

Components (materials) are valued at lower of moving average cost and net realisable value. Work-in-process includes the cost of components only (determined on a moving average basis). Finished goods are stated at the lower of cost determined on an average basis and net realisable value and includes appropriate portion of labour and production overheads. Components in transit are stated at cost incurred up to the balance sheet date.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## **5.5 Trade debts and other receivables**

- Trade debts are carried at cost (invoiced amount, which is the fair value of the consideration receivable for sale of gas) less an estimate for impaired receivables.
- Other receivables are stated at cost less impairment losses, if any.
- Bad debts are written off when identified.

## **5.6 Trade and other payables**

Trade and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

## **5.7 Mark-up bearing borrowings**

### *Long term financing*

Mark-up bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at original cost less repayments, while the difference between the cost (reduced for periodic payments) and redemption value is recognized in the profit and loss account over the period of the borrowings on an effective mark-up basis.

### *Leases*

The company accounts for lease obligations by recording the asset and the corresponding liability determined on the basis of discounted value of minimum lease payments. Financial charges are recognized in the profit and loss account using the effective mark-up rate method.

## **5.8 Provisions**

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, 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.

## **5.9 Deferred credit**

Amounts received from customers and the Government as contributions and grants for providing service connections, extension of gas mains, laying of transmission lines, etc. are deferred and recognized in the profit and loss account over the useful lives of the related assets.

## **5.10 Taxation**

### *Current*

Provision for current taxation is based on taxable income at the current rates of taxation, after taking into account the available tax credits and rebates.

### *Deferred*

Deferred tax is recognized using the balance sheet liability method on all significant temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit can be realized. Deferred tax is calculated at rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantially enacted at the balance sheet date.

## **5.11 Revenue recognition**

- revenue from gas sales is recognized on the basis of gas supplied to customers at rates periodically announced by the Oil and Gas Regulatory Authority (OGRA).
- meter rental income is recognized monthly at specified rates for various categories of customers on an accrual basis.

- revenue from sale of meters and gas condensate is recognized on dispatch to the customers.
- deferred credit income is amortised to the profit and loss account over the useful lives of related assets (refer note 5.9).
- dividend income on equity investments is recognized when right to receive the same is established.
- profit on term deposits, royalty income and pipeline rental income are recognized on time proportion basis.
- late payment surcharge is recognized from the date the billed amount is due.
- revenue from gas shrinkage in LPG extraction plant of Jamshoro Joint Venture Limited is recognised on accrual basis.
- under the provisions of license given by OGRA, the company is required to earn a minimum annual return before taxation of 17% per annum of the net average operating fixed assets (net of deferred credit) for the year, excluding financial and other non operating charges and non operating income. The determination of annual required rate of return is reviewed by OGRA under the terms of the license for transmission, distribution and sale of natural gas, targets and parameters set by OGRA. Income earned in excess / short of the above guaranteed return is payable to / recoverable from Government of Pakistan (GoP) and is adjusted from / to the gas development surcharge balance payable to / receivable from GoP.

## **5.12 Impairment**

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the profit and loss account.

## **5.13 Staff retirement benefits**

The company operates the following retirement schemes for its employees:

- Approved funded pension and gratuity schemes for all employees.

Contributions to the schemes are made on the basis of actuarial valuations under the projected unit credit method.

Actuarial gains / losses are recorded based on actuarial valuation that is carried out annually. Unrecognized actuarial gains and losses, relating to non-executive and executive employees defined benefit plans, exceeding ten percent of the greater of the present value of defined benefit obligations and the fair value of plan assets, are recognized in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise the actuarial gains or losses are not recognized.

Past service cost is recognized in the profit and loss account over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the profit and loss account.

- Unfunded free medical and gas supply facility schemes for its executive employees.

Liability under these schemes is recognized in the period in which the benefit is earned based on the actuarial valuations carried out under the projected unit credit method.

The free gas supply facility has been discontinued for employees retiring after 31 December 2000.

Actuarial gains / losses are recorded based on actuarial valuation that is carried out annually. Unrecognized actuarial gains or losses, exceeding ten percent of the present value of the defined benefit obligation, are recognized in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gains or losses are not recognized.

- Approved contributory provident funds for all employees (defined contribution scheme).

Contributions by the company and employees are made on the basis of basic salary.

- A non-contributory benevolent fund, under which only the employees contribute to the fund.

#### **5.14 Compensated absences**

The liability for accumulated compensated absences of employees is recognized in the period in which employees render service that increases their entitlement to future compensated absences.

#### **5.15 Foreign currency translation**

Transactions in foreign currencies during the year are translated into Pak rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange ruling on the balance sheet date. Exchange gains and losses are taken to the profit and loss account currently.

#### **5.16 Derivative financial instruments**

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, the derivative financial instruments are stated at fair value. Changes in fair value of derivative financial instrument are recognised in the profit and loss account, alongwith any changes in the carrying value of the hedged liability.

#### **5.17 Fiduciary assets**

Assets held in trust or in a fiduciary capacity by the company are not treated as assets of the company and accordingly are not included in these financial statements.

#### **5.18 Off-setting**

Financial assets and liabilities are off set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognized amount and the company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

#### **5.19 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand and deposits in banks, short term running finance under mark-up arrangement, term liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

## 6 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006 (Number)	2005		2006 (Rupees in '000)	2005
219,566,554	219,566,554	Ordinary shares of Rs. 10 each fully paid in cash	2,195,666	2,195,666
451,607,777	451,607,777	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	4,516,077	4,516,077
<u>671,174,331</u>	<u>671,174,331</u>		<u>6,711,743</u>	<u>6,711,743</u>

## 7 RESERVES

### Capital reserves

Share capital restructuring reserve (due to merger)	7.1	146,868	146,868
Fixed assets replacement reserve	7.2	<u>88,000</u>	<u>88,000</u>
		<b>234,868</b>	234,868

### Revenue reserves

Dividend equalisation reserve		36,000	36,000
Special reserve	7.3	333,141	333,141
General reserve		1,884,653	1,884,653
		<u>2,253,794</u>	<u>2,253,794</u>
		<b>2,488,662</b>	<u>2,488,662</u>

### 7.1 Share capital restructuring reserve

This represents the reduction of share capital of former Sui Gas Transmission Company Limited (SGTC) due to merger of Sui Gas Transmission Company Limited and Southern Gas Company Limited (SGC) in March 1989.

### 7.2 Fixed assets replacement reserve

This represents profit allocated in 1986 by former Southern Gas Company Limited for replacement of gas distribution lines in rural Sindh areas. Subsequently all the rehabilitation activities were carried out from company's working capital.

### 7.3 Special reserve

This represents accumulated balance arising on a price increase of Rs. 4.10 per MCF granted to the company by the Government of Pakistan (GoP) in January 1987 retrospectively from 1 July 1985 to enable the company to meet the requirements of Asian Development Bank regarding debt / equity ratio and other financial covenants specified in loan agreements with them.

8	LONG TERM FINANCING	2006	2005
		(Rupees in '000)	
<b>Secured</b>			
<i>- Loans from banking companies and financial institution</i>			
	Local currency loans	8.1	8,666,667
			6,750,000
<i>- Other loans</i>			
	Redeemable capital	8.2	-
			416,330
<b>Unsecured - other loans</b>			
	Consumer financing	8.3	58,385
			36,850
			<u>8,725,052</u>
			<u>7,203,180</u>

#### 8.1 Local currency loans

	Instalment payable	Repayment period		
United Bank Limited - term loan	half-yearly	2005 - 2009	8.1.1	750,000
Standard Chartered Bank led syndicated loan	half-yearly	2006 - 2009	8.1.2	3,000,000
National Bank of Pakistan led syndicated loan	half-yearly	2007 - 2010	8.1.3	3,000,000
National Bank of Pakistan - term loan	quarterly	2008 - 2011	8.1.4	1,500,000
MCB Bank Limited - led syndicated loan	quarterly	2008 - 2011	8.1.5	1,500,000
				<b>9,750,000</b>
				7,000,000
Less: Current portion shown under current liabilities				
				(250,000)
				(833,333)
				<b>(1,083,333)</b>
				<u>8,666,667</u>
				<u>6,750,000</u>

- 8.1.1** The loan is secured by a first pari passu fixed charge created by way of hypothecation over movable fixed assets of the company comprising compressor stations, transmission pipelines, distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 1 percent above last six months treasury bills auction cut-off rate and is repayable in equal semi-annual instalments of Rs. 125 million (principal amount) commencing from 25 December 2005.
- 8.1.2** The loan is secured by a first pari passu fixed charge created by way of hypothecation over all its present and future moveable fixed assets comprising compressor stations, transmission and distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 0.9 percent above the average six months ask side KIBOR rate. The loan was drawn in tranches of Rs. 2.0 billion and Rs. 1.0 billion on 29 June 2004 and 30 September 2004 respectively. First tranche of Rs. 2.0 billion is payable in equal semi-annual instalments of Rs. 333.34 million (principal amount) commencing from 28 December 2006 whereas second tranche of Rs. 1.0 billion is payable in equal semi annual instalments of Rs. 166.67 million (principal amount) commencing from 30 March 2007.
- 8.1.3** The loan is secured by a first pari passu fixed charge created by way of hypothecation over all its present and future moveable fixed assets comprising of compressor stations, transmission and distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 1.25 percent above the average three months ask side KIBOR payable quarterly starting from 29 September 2005. The principal amount is repayable in semi annual instalments of Rs. 500 million commencing from 30 December 2007.
- 8.1.4** The loan is secured by a ranking pari passu charge created by way of hypothecation over all its present and future moveable fixed assets comprising of gas pipelines, compressor stations, transmission and distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 1.30 percent above the average three months ask side KIBOR payable quarterly starting from 30 September 2006. The principal amount is repayable in quarterly instalments of Rs. 125 million commencing from 30 September 2008.
- 8.1.5** The loan is secured by a ranking charge created by way of hypothecation over all its present and future moveable fixed assets comprising of gas pipelines, compressor stations, transmission and distribution pipelines and pipelines construction machinery and equipment. The facility carries mark-up at 1.30 percent above the average three months ask side KIBOR payable quarterly starting from 29 September 2006. The principal amount is repayable in quarterly instalments of Rs. 125 million commencing from 29 September 2008.

8.2 Redeemable capital - (non-participatory and secured)			2006	2005
	Instalment payable	Repayment period	(Rupees in '000)	
Term finance certificates (TFC 1)	half-yearly	2001 - 2006	-	333,080
Term finance certificates (TFC 2)	half-yearly	2002 - 2007 8.2.1	<b>416,330</b>	832,665
			<b>416,330</b>	1,165,745
Less: Current portion shown under current liabilities			<b>(416,330)</b>	(749,415)
			<b>-</b>	<b>416,330</b>

**8.2.1** Liability against term finance certificates (TFC) is secured by first pari passu charge on all present and future machinery and equipment and other moveable properties of the company at specified locations along with the mortgage by deposit of title deeds of the company's head office building. These TFCs have been rated as AA by Pakistan Credit Rating Agency (Private) Limited (PACRA). Mark-up not due on these TFCs, as at 30 June 2006, amounted to Rs. 32.203 million (2005: Rs. 141.529 million) (at floor rate).

*Salient features of the TFCs are as follows:*

Particulars	Total tenure	Semi annual instalments	Profit rate (before prompt payment rebate)	Prompt payment rebate
TFC 2	5 years	- Rs. 0.25 million from 1 December 2002 to 1 June 2004	- SBP discount rate plus 1.10% per annum.	- None.
		- Rs. 208.167 million from 1 December 2004 to 1 June 2007	- Floor of 11.5% per annum and cap of 16% per annum throughout the life of issuance.	

8.2.2 Holding position of TFCs as at 30 June		2006	2005
		(Rupees in '000)	
- <i>Tranche 1</i>			
Banking companies and other financial institutions		-	187,361
Others		-	145,719
		-	333,080
- <i>Tranche 2</i>			
Banking companies and other financial institutions		<b>323,570</b>	523,017
Others		<b>92,760</b>	309,648
		<b>416,330</b>	832,665
		<b>416,330</b>	1,165,745

8.3 Consumer financing		2006	2005
Consumer financing	8.3.1	<b>78,205</b>	52,868
Current portion shown under current liabilities		<b>(19,820)</b>	(16,018)
		<b>58,385</b>	36,850

**8.3.1** This represents the outstanding balance of contributions received from certain industrial customers for the laying of distribution mains for supply of gas to their premises. These balances carry mark-up at varying rates up to 15 percent per annum and are adjustable in 48 instalments through credits in their monthly gas bills.

## 9 LONG TERM DEPOSITS

Security deposits from:			
- Gas customers	9.1	<b>2,063,973</b>	1,785,403
- Gas contractors	9.2	<b>25,454</b>	21,292
		<b>2,089,427</b>	1,806,695

**9.1** Customers' deposits represent gas supply deposits based on an estimate of three months consumption of gas sales to industrial and commercial customers while deposits from domestic customers are based on the rates fixed by the Government of Pakistan. These deposits are repayable / adjustable on disconnection of gas supply. Mark-up at 5 percent per annum is payable by the company on deposits from the industrial and commercial customers. No mark-up is payable on deposits received from domestic customers.

**9.2** These represent security deposits received from the contractors. These deposits are free of mark-up and are refundable on the cancellation of contract.

<b>10 DEFERRED TAX</b>	<b>2006</b>	<b>2005</b>
	<b>(Rupees in '000)</b>	
<i>Deferred tax liability on</i>		
Taxable temporary difference (accelerated tax depreciation)	<b>4,171,708</b>	3,626,349
Deductible temporary differences:		
- provision against employee benefits	<b>(316,542)</b>	(323,351)
- provision against doubtful trade debts	<b>(457,180)</b>	(396,667)
- others	<b>(193,352)</b>	(31,090)
	<b>(967,074)</b>	(751,108)
Net deferred tax liability	<b><u>3,204,634</u></b>	<u>2,875,241</u>
<b>11 EMPLOYEE BENEFITS</b>		
Provision for post retirement medical and gas supply facilities - executives	<b>795,559</b>	718,799
Provision for compensated absences - executives	<b>108,846</b>	129,133
	<b><u>904,405</u></b>	<u>847,932</u>
<b>11.1 Provision for compensated absences - executives</b>		
Balance as at 1 July	<b>129,133</b>	122,253
Provision made during the year	<b>(20,287)</b>	6,880
Balance as at 30 June	<b><u>108,846</u></b>	<u>129,133</u>
<b>12 DEFERRED CREDIT</b>		
<i>- Government contributions / grants</i>		
Balance at 1 July	<b>183,823</b>	222,567
Additions /(reversal) during the year	<b>418,539</b>	(34,948)
	<b><u>602,362</u></b>	<u>187,619</u>
Transferred to profit and loss account	<b>(30,701)</b>	(3,796)
Balance at 30 June	<b><u>571,661</u></b>	<u>183,823</u>
<i>- Contribution from customers</i>		
Balance at 1 July	<b>1,607,541</b>	1,488,828
Additions during the year	<b>220,131</b>	265,779
	<b><u>1,827,672</u></b>	<u>1,754,607</u>
Transferred to profit and loss account	<b>(153,803)</b>	(147,066)
Balance at 30 June	<b><u>1,673,869</u></b>	<u>1,607,541</u>
	<b><u>2,245,530</u></b>	<u>1,791,364</u>

- 12.1** This represents amount received from Government for supply of gas to new towns and villages and are recognized as grant when the conditions specified by Government are met.
- 12.2** This represents amount received from customers for the cost of service lines and gas mains, etc. As stated in note 5.9 to these financial statements, deferred credit is being amortized over estimated useful life of related assets.

**13 TRADE AND OTHER PAYABLES**

	2006	2005
	(Rupees in '000)	
Creditors for:		
- gas	12,589,293	7,767,374
- supplies	49,510	263,894
	<u>12,638,803</u>	<u>8,031,268</u>
Amount received from customers /		
Government of Pakistan for laying of mains, etc.	2,217,207	1,505,717
Gas development surcharge payable to		
the Government of Pakistan	-	378,453
Accrued liabilities	974,548	544,645
Provision for compensated absences - non-executives	13.1 57,029	55,422
Payable to gratuity fund- non executive	38.1.3 30,872	-
Workers' profit participation fund	13.2 20,595	83,658
Deposits / retention money	109,717	82,115
Bills payable	15,515	63,927
Advance for sharing right of way	13.3 18,088	18,088
Unclaimed dividend	26,914	19,053
Withholding tax payable	2,063	3,618
Unclaimed term finance certificate redemption profit	4,238	13,493
Inter State Gas System (Pvt) Limited (ISGSL)	14,896	-
Others	13.4 79,746	126,658
	<u>16,210,231</u>	<u>10,926,115</u>

**13.1 Provision for compensated absences - non-executives**

Balance as at 1 July	55,422	55,129
Provision made during the year	1,607	293
Balance as at 30 June	<u>57,029</u>	<u>55,422</u>

**13.2 Workers' profit participation fund**

Balance at 1 July	83,658	82,837
Allocation for the year	90,595	83,658
Mark-up on funds utilised in the company's business	1,072	817
	<u>175,325</u>	<u>167,312</u>
Amount deposited with the Government / paid to employees	(154,730)	(83,654)
Balance at 30 June	<u>20,595</u>	<u>83,658</u>

**13.3** This amount was received by Sui Gas Transmission Company Limited (now Sui Southern Gas Company Limited - SSGCL) from Pak Arab Refinery Limited (PARCO) in accordance with an agreement dated 12 October 1988. It represents consideration for 50 percent share of PARCO in the Indus right bank pipeline common right of way and is the full settlement of PARCO's total liability for its share, irrespective of the final amount of compensation payable to the land owners by SSGCL. The final liability of SSGCL has not been estimated, as the amount of compensation due to land owners has not been determined by the authorities. Accordingly, the amount received from PARCO has been classified as an advance.

**13.4** This includes Rs. 44.779 million (2005: Rs. 46.517 million) on account of amount payable to disconnected customers for gas supply deposits.

**14 INTEREST AND MARK-UP ACCRUED**

	2006	2005
	(Rupees in '000)	
Mark-up / interest and other charges on:		
- Long term financing :		
- Foreign currency loans	-	5,442
- Local currency loans	48,423	39,930
- Redeemable capital	3,410	10,642
- Long term deposits from customers	58,866	49,111
- Short term borrowing	50,642	24,478
- Other	513,289	-
- Late payment of gas development surcharge	86	55,417
	<u>674,716</u>	<u>185,020</u>

**15 SHORT TERM BORROWINGS - secured**  
- from banking companies

Short term money market loan	220,000	220,000
Short term running finance	944,753	-
	<u>1,164,753</u>	<u>220,000</u>

15.1

**15.1** The facilities for short term running finance / short term money market loan available from various banks amount to Rs. 4,170 million (2005: Rs. 2,620 million) and carry mark up at 0.25 to 0.90 percent (2005: 0.25 to 1.00 percent) above the average one month KIBOR or that for the tenure of the facility which ever is applicable. The facilities are secured by first pari passu hypothecation charge over present and future stock in trade and book debts of the company.

**16 CURRENT PORTION OF LONG TERM FINANCING**

		<b>2006</b>	2005
		<b>(Rupees in '000)</b>	
Foreign currency loans		-	445,711
Local currency loans	8.1	<b>1,083,333</b>	250,000
Redeemable capital	8.2	<b>416,330</b>	749,415
Consumer financing	8.3	<b>19,820</b>	16,018
		<b><u>1,519,483</u></b>	<b><u>1,461,144</u></b>

**17 CONTINGENCIES AND COMMITMENTS**

<b>17.1</b>	Claims against the company not acknowledged as debt	<b><u>747,126</u></b>	<b><u>1,942,096</u></b>
<b>17.2</b>	Aggregate commitments for capital and other expenditure	<b><u>3,354,242</u></b>	<b><u>1,733,410</u></b>
<b>17.3</b>	Guarantees issued on behalf of the company	<b><u>4,814</u></b>	<b><u>3,504</u></b>
<b>17.4</b>	Demand finance facilities have been given to the company's employees by certain banks for the purchase of vehicles against the company's guarantee and hypothecation of company's stock of pipes, gas meters, regulators, etc. valuing Rs. 75 million and company's investment in shares having a face value of Rs. 0.5 million (2005: Rs. 0.5 million). Loan outstanding at the year end was Rs. 21.887 million (2005: Rs. 25.036 million).		
<b>17.5</b>	Jamshoro Power Company Limited (JPCL) (formerly WAPDA) has lodged a claim against the company amounting to Rs. 491.11 million for short supply of gas under the provisions of an agreement dated 10 April 1995 between the company and JPCL. The company has not accepted the claim and has filed a counter claim due to JPCL failure to uplift minimum quantities during certain other periods. Provision against this liability has not been made as the company is confident that ultimately the resolution of the claim lodged would be in its favour.		
<b>17.6</b>	JPCL has also raised a claim of Rs. 98.941 million for the alleged low Gas Chlorofic Value (GCV) measurement for the period from January 2002 to December 2002 and February 2003 as compared to the actual GCV billed by the company. The company has not accepted the claim as it is still disputing JPCL's measurement. Provision against this liability has not been made as the company is confident that ultimately the resolution of the claim would be in its favour.		
<b>17.7</b>	The company is in litigation against certain temporary assignees who were relieved in the previous years. The Federal Services Tribunal (FST) had ordered the company to absorb these assignees. The company had filed an appeal before the Honourable Supreme Court of Pakistan against the orders of the FST, which was dismissed by the Honourable Supreme Court. The company has filed a Review Petition before the Honourable Supreme Court against the rejection of the company's appeal and the Federation has also filed 4 Civil Miscellaneous Applications (CMAs) against the said order. These proceedings regarding 658 persons are still pending before Honourable Supreme Court of Pakistan. No provision has been made in these financial statements as the same cannot be quantified at this stage.		

**17.8** Oil and Gas Development Company Limited (OGDCL) has lodged a claim of Rs. 533.371 million for supply of gas to the customers of Dera Bugti and Pirkoh areas from its Loti gas field from June 2001 to August 2005, after the discontinuation of gas purchases by the company due to full dedication of Loti gas field to Sui Northern Gas Pipelines Limited (SNGPL). The company has not accepted the claim as neither a formal agreement has been executed with them for the above supply of gas, nor has the company received any gas in its system. During the previous years the company approached the Director General (Gas), Ministry of Petroleum and Natural Resources (MNPR), Government of Pakistan for the resolution of the matter. Director General (Gas) through their letter dated 1 March 2005 referred to an earlier decision taken in this regard against the company on 18 April 2001 and asked the company for its comments in this regard. Provision has not been made in these financial statements for the claim as the company is confident that ultimately the resolution of claim will be in its favour.

**17.9** WAPDA has lodged liquidated damages claim on Habibullah Coastal Power Company (HCPC) for forced outages and partial de rating of its plant. HCPC in turn attributed part of these liquidated damages (Rs. 79.702 million) to SSGCL and lodged a claim on the grounds that SSGCL failed to deliver the gas in accordance with the gas sales agreement. In addition, HCPC has also lodged a claim on SSGCL amounting to Rs. 34.032 million in respect of alternative fuel cost consumed by HCPC due to short gas supplied by SSGCL as agreed in the gas sales agreement.

The company has not accepted the claim lodged by HCPC as management considers that short supply was due to force majeure which is beyond the control of the company. The management is pursuing this matter with WAPDA and management of HCPC and is confident that this matter would be resolved in its favour. Hence, no provision regarding the above said amount has been made in these financial statements.

**17.10** Sui Northern Gas Pipeline Limited (SNGPL) has lodged a claim on SSGCL amounting to Rs. 36.946 million in respect of gas lost during December 2003 to September 2005 in respect of ILBP (Hasan to Sui) and IRBP-CEP (Dadu to Sui).

The company has not accepted the claim as management considers that gas losses was due to force majeure and beyond the control of the company. Hence, no provision regarding the above said amount has been made in these financial statements.

**17.11** During the current year, ITAT has decided an appeal in favour of Income Tax department on the issue of capital gain made on disposal of LPG business in financial year 2001 resulting in tax impact of Rs. 143 million. Management has filed an appeal before Honourable High Court in which SSGCL management is of the view that sale of LPG business being in nature of “slump transaction” was not chargeable to tax under Rule 7 and 8 of the 2nd Schedule of the Income Tax Ordinance, 1979. No provision regarding the said claim has been made in these financial statements.

**17.12** The management is confident that ultimately these claims (note 17.1) would not be payable.

18 PROPERTY, PLANT AND EQUIPMENT

		2006 (Rupees in '000)	2005
Operating assets	18.1	22,224,931	19,235,207
Capital work in progress	18.9	2,674,956	2,405,921
		<u>24,899,887</u>	<u>21,641,128</u>

18.1 Operating assets

		2006 (Rupees in '000)						
		Cost at 1 July 2005	Additions/ (deletions)/ transfer *	Cost at 30 June 2006	Accumulated depreciation at 1 July 2005	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2006	Written down value at 30 June 2006
<b>Owned</b>								
<b>Gas transmission system</b>	18.2	22,159,532	2,010,316 (108,285) -	24,061,563	14,253,989	1,161,049 (107,713) (1,139) *	15,306,186	8,755,377
<b>Gas distribution system</b>	18.3							
- Karachi, Sindh		9,724,529	1,451,382 (84,920) -	11,090,991	4,157,884	517,150 (70,257) 348 *	4,605,125	6,485,866
- Other areas of Sindh		5,907,761	923,138 (19,940) -	6,810,959	2,509,164	302,543 (19,934) 245 *	2,792,018	4,018,941
- Balochistan		3,535,111	730,105 (2,924) -	4,262,292	1,231,262	188,358 (2,716) (62) *	1,416,842	2,845,450
		19,167,401	3,104,625 (107,784) -	22,164,242	7,898,310	1,008,051 (92,907) 531 *	8,813,985	13,350,257
<b>Meter manufacturing division</b>	18.4	230,236	27,441 (303) -	257,374	169,663	55,378 (22) 1 *	225,020	32,354
		41,557,169	5,142,382 (216,372) -	46,483,179	22,321,962	2,224,478 (200,642) (607)	24,345,191	22,137,988
<b>Gawader</b>	18.5							
Gas distribution system		-	88,847 -	88,847	-	1,904 -	1,904	86,943
		41,557,169	5,231,229 (216,372) -	46,572,026	22,321,962	2,226,382 (200,642) (607) *	24,347,095	22,224,931

(Rupees in '000)

	2005						
	Cost at 1 July 2004	Additions/ (deletions)/ transfer *	Cost at 30 June 2005	Accumulated depreciation at 1 July 2004	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2005	Written down value at 30 June 2005
<b>Owned</b>							
<b>Gas transmission system</b>	19,551,182	2,644,859	22,159,532	13,204,657	1,081,137	14,253,989	7,905,543
	-	(60,739)	-	-	(56,034)	-	-
<b>Gas distribution system</b>	-	24,230 *	-	-	24,229 *	-	-
<b>- Karachi, Sindh</b>	8,882,425	883,715 (42,634)	9,724,529	3,647,598	543,950 (34,687)	4,157,884	5,566,645
<b>- Other areas of Sindh</b>	5,217,807	1,023 * 498,906 (15,366)	5,907,761	2,178,331	1,023 * 335,791 (15,366)	2,509,164	3,398,597
<b>- Balochistan</b>	2,911,920	206,414 * 624,481 (1,290)	3,535,111	1,024,641	10,408 * 207,911 (1,290)	1,231,262	2,303,849
	17,012,152	2,007,102 (59,290) 207,437 *	19,167,401	6,850,570	1,087,652 (51,343) 11,431 *	7,898,310	11,269,091
<b>Meter manufacturing division</b>	229,060	1,967 (791)	230,236	163,367	6,892 (596)	169,663	60,573
	36,792,394	- 4,653,928 (120,820) 231,667 *	41,557,169	20,218,594	- 2,175,681 (107,973) 35,660 *	22,321,962	19,235,207
<b>Leased</b>							
<b>Gas distribution system</b>	102,000	-	-	11,219	-	-	-
		- (102,000) *			- (11,219) *		
	36,894,394	4,653,928 (120,820) 129,667 *	41,557,169	20,229,813	2,175,681 (107,973) 24,441 *	22,321,962	19,235,207

## 18.2 Operating assets - gas transmission system

(Rupees in '000)

	Cost at 1 July 2005	Additions/ (deletions)/ transfer *	Cost at 30 June 2006	Accumulated depreciation at 1 July 2005	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2006	Written down value at 30 June 2006	Depreciation rate (%) / remaining life (years)**
<b>Owned</b>								
Freehold land	47,747	-	47,747	-	-	-	47,747	-
Leasehold land	125,804	666	126,470	-	-	-	126,470	-
Buildings on freehold land	279,291	-	279,291	121,601	5,800	127,401	151,890	5
Buildings on leasehold land	940,872	7,449	948,321	200,812	275,692	473,608	474,713	5
Gas transmission pipelines	15,672,367	1,531,126	17,203,493	9,932,131	561,831	10,493,962	6,709,531	2-38 **
Compressors	2,320,251	-	2,320,251	1,987,957	84,430	2,072,387	247,864	1-14**
Telecommunication	585,374	3,826 (85,307)	503,893	564,102	12,344 (85,307)	490,645	13,248	15
Plant and machinery	420,867	9,971 (1,357)	429,481	246,314	32,218 (1,357)	277,175	152,306	10
Tools and equipment	108,030	14,765 (249)	122,546	93,083	9,730 (249)	102,564	19,982	33.33
Motor vehicles	405,121	84,315 (8,114)	524,439	246,933	47,122 (7,542)	286,513	237,926	20
Furniture and Fixture	103,295	37,692 (6,187)	228,846	82,797	18,201 (6,187)	166,372	62,474	20
Office Equipment	197,794	50,390 (478)	153,660	163,737	10,046 (478)	105,484	48,176	20
Computer and ancillary equipments	149,399	31,647 (94,046) *	181,046	85,812	44,348 (67,821) *	130,160	50,886	33.33
Supervisory control and data acquisition system	275,969	26,460	302,429	62,219	39,346	101,565	200,864	15
Construction equipment	527,351	212,009 (6,593) (43,117) *	689,650	466,491	19,941 (6,593) (1,489) *	478,350	211,300	20
<b>2006</b>	<b>22,159,532</b>	<b>2,010,316</b> <b>(108,285)</b>	<b>24,061,563</b>	<b>14,253,989</b>	<b>1,161,049</b> <b>(107,713)</b> <b>(1,139) *</b>	<b>15,306,186</b>	<b>8,755,377</b>	
<b>2005</b>	<b>19,551,182</b>	<b>2,644,859</b> <b>(60,739)</b> <b>24,230 *</b>	<b>22,159,532</b>	<b>13,204,657</b>	<b>1,081,137</b> <b>(56,034)</b> <b>24,229 *</b>	<b>14,253,989</b>	<b>7,905,543</b>	

Depreciation is being charged as stated in note 5.1.2

## 18.3 Operating assets - gas distribution system

(Rupees in '000)

	Cost at 1 July 2005	Additions/ (deletions) / transfer *	Cost at 30 June 2006	Accumulated depreciation at 1 July 2005	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2006	Written down value at 30 June 2006	Depreciation rate %
<b>Owned</b>								
Freehold land	9,859	-	9,859	-	-	-	9,859	-
Leasehold land	34,277	-	34,277	-	-	-	34,277	-
Buildings on freehold land	45,201	-	45,201	25,327	1,956	27,283	17,918	5
Buildings on leasehold land	112,771	8,160	120,931	45,414	5,390	50,804	70,127	5
Gas distribution system, related facilities and equipment	17,960,624	2,921,586 (76,375)	20,805,835	7,086,607	910,462 (62,643)	7,935,185	12,870,650	5 to 10
Telecommunication	8,609	1,152	9,761	7,010	502 759 *	7,512	2,249	15
Plant and machinery	287,760	35,101 (6,090)	316,771	203,481	14,420 (6,084)	211,825	104,946	10
Roads, pavements and related infrastructures	1,010	-	1,010	1,010	- 8 *	1,010	-	5
Tools and equipment	54,019	13,136 (172)	66,983	46,192	6,235 232 *	52,659	14,324	33.33
Motor vehicles	369,062	98,117 (23,884)	443,295	244,003	37,403 (23,383)	257,097	186,198	20
Furniture and Fixture	21,955	13,864 (831)	48,768	18,089	3,218 (769)	32,380	16,388	20
Office equipment	51,344	13,780 * 4,702 (28)	42,238	41,145	11,842 * 3,057 (28)	32,790	9,448	20
Computer and ancillary equipment	111,794	(13,780) * 8,807 (404)	120,197	80,916	(11,384) * 25,408	106,324	13,873	33.33
Supervisory control and data acquisition system	99,116	-	99,116	99,116	-	99,116	-	15
	<b>2006</b>	<b>3,104,625 (107,784)</b>	<b>22,164,242</b>	<b>7,898,310</b>	<b>1,008,051 (92,907)</b>	<b>8,813,985</b>	<b>13,350,257</b>	
	<b>2005</b>	<b>2,007,102 (59,290)</b>	<b>19,167,401</b>	<b>6,861,789</b>	<b>1,087,652 (51,343)</b>	<b>7,898,310</b>	<b>11,269,091</b>	
		<b>105,437 *</b>			<b>212 *</b>			

## 18.4 Operating assets - meter manufacturing division

(Rupees in '000)

	Cost at 1 July 2005	Additions/ (deletions) / transfer *	Cost at 30 June 2006	Accumulated depreciation at 1 July 2005	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2006	Written down value at 30 June 2006	Depreciation rate %
<b>Owned</b>								
Building on leasehold land	8,260	274 (274)	8,260	6,569	586 -	7,155	1,105	5
Telecommunication	80	-	80	47	8 -	57	23	15
Plant and machinery	209,713	1,602 -	211,225	157,773	48,294 2 *	206,067	5,158	10 & 20
Tools and equipment	3,399	23,900 (90) *	27,299	1,446	3,949 -	5,395	21,904	33.33
Furniture and equipment	527	1,578 (29)	5,947	361	1,352 (22)	3,228	2,719	20
Office equipment	7,147	3,871 *	3,233	2,924	511 -	1,884	1,349	20
Computer and ancillary equipment	1,110	(3,914) * 87 -	1,330	543	(1,551) * 678 -	1,234	96	33.33
		133 *			13 *			
<b>2006</b>	<b>230,236</b>	<b>27,441</b> <b>(303)</b> <b>-</b>	<b>257,374</b>	<b>169,663</b>	<b>55,378</b> <b>(22)</b> <b>1</b>	<b>225,020</b>	<b>32,354</b>	
<b>2005</b>	<b>229,060</b>	<b>1,967</b> <b>(791)</b>	<b>230,236</b>	<b>163,367</b>	<b>6,892</b> <b>(596)</b>	<b>169,663</b>	<b>60,573</b>	

## 18.5 Operating assets - Gawader

	Cost at 1 July 2005	Additions/ (deletions) / adjustments *	Cost at 30 June 2006	Accumulated depreciation at 1 July 2005	Charge for the year/(accumulated depreciation on deletions)/ transfer *	Accumulated depreciation at 30 June 2006	Written down value at 30 June 2006	Depreciation rate %
<b>Owned</b>								
Leasehold land	-	14,040 -	14,040	-	-	-	14,040	-
Gas distribution system	-	56,386 -	56,386	-	1,637	1,637	54,749	5 to 10
Plant and machinery	-	15,132 -	15,132	-	157	157	14,975	10
Tools and equipment	-	118 -	118	-	3	3	115	33.33
Furniture and equipment	-	3,166 -	3,166	-	106	106	3,060	20
Office equipment	-	5 -	5	-	1	1	4	20
<b>2006</b>	<b>-</b>	<b>88,847</b> <b>-</b> <b>-</b>	<b>88,847</b>	<b>-</b>	<b>1,904</b> <b>-</b> <b>-</b>	<b>1,904</b>	<b>86,943</b>	

## 18.6 Details of the depreciation for the year are as follows:

2006                      2005  
(Rupees in '000)

**Profit and loss account:**

Transmission, distribution and selling costs  
Administrative expenses  
Gawader operation

1,758,901	2,054,374
390,258	97,186
1,904	-
<b>2,151,063</b>	<b>2,151,560</b>

**Meter manufacturing division**

Profit and loss account  
Gas meters components produced

52,707	3,893
2,671	2,999
<b>55,378</b>	<b>6,892</b>

**Capital projects**

19,941	17,229
<b>2,226,382</b>	<b>2,175,681</b>

## 18.7 Disposal of property plant and equipment

Details of disposal of operating assets are as follows:

	(Rupees in '000)					Particulars of buyers	Mode of disposal
	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain on sale		
<b>Construction equipment</b>							
Written down value not exceeding Rs. 50,000 each	6,593	6,593	-	1,609	1,609	Various	Tender
	6,593	6,593	-	1,609	1,609		
<b>Office equipment</b>							
Written down value not exceeding Rs. 50,000 each	506	505	1	16	15	Various	Tender
	506	505	1	16	15		
<b>Personal computers and allied equipments</b>							
Written down value not exceeding Rs. 50,000 each	404	-	404	404	-	Various	Tender
	404	-	404	404	-		
<b>Plant and machinery</b>							
Written down value not exceeding Rs. 50,000 each	7,447	7,440	7	1,200	1,193	Various	Tender
	7,447	7,440	7	1,200	1,193		
<b>Tools</b>							
Written down value not exceeding Rs. 50,000 each	1,377	1,014	363	387	24	Various	Tender
	1,377	1,014	363	387	24		
<b>Telecommunication</b>							
Written down value not exceeding Rs. 50,000 each	85,307	85,307	-	586	586	Various	Tender
	85,307	85,307	-	586	586		
<b>Furniture and fixture</b>							
Written down value not exceeding Rs. 50,000 each	7,048	6,978	70	731	661	Various	Tender
	7,048	6,978	70	731	661		
<b>Gas distribution system</b>							
Written down value above Rs. 50,000 each	29,910	29,910	-	3,584	3,584	Various	Tender
	29,910	29,910	-	3,584	3,584		
<b>Gas distribution system</b>							
Written down value not exceeding Rs. 50,000 each	46,464	32,733	13,731	5,533	(8,198)	Various	Tender
	46,464	32,733	13,731	5,533	(8,198)		
<b>Motor vehicles</b>							
Written down value not exceeding Rs. 50,000 each	26,394	26,394	-	20,032	20,032	Various	Tender
	26,394	26,394	-	20,032	20,032		
As per service rules of the company	956	766	190	190	-	Mr. Inamus Samad	Service rules
As per service rules of the company	772	772	-	58	58	Mr. Samad Lakhani	Service rules
As per service rules of the company	684	684	-	51	51	Ex- GM (D)	Service rules
As per service rules of the company	580	382	198	198	-	Mr. Wahid Hussain	Service rules
Insurance claim	1,655	1,164	491	1,400	909	Ex- GM (HR)	Service rules
Written off	275	-	275	275	-	Mr. Mushtaq Ahmad	Service rules
	31,316	30,162	1,154	22,204	21,050	Ex- DGM (D)	Service rules
						National Insurance Co.	
<b>30 June 2006</b>	<b>216,372</b>	<b>200,642</b>	<b>15,730</b>	<b>36,254</b>	<b>20,524</b>		
30 June 2005	120,820	107,973	12,847	60,034	52,211		

**18.8** Borrowing costs capitalised during the year in gas transmission system amounted to Rs. 100.943 million (2005: Rs. 83.282 million). Borrowing cost relating to TFCs were capitalized @ 11.5% for Gas Infrastructure Rehabilitation and Expansion Project (GIREP) and general borrowings for other capital expenditures at capitalization rate of 9.87%.

<b>18.9 CAPITAL WORK-IN-PROGRESS</b>	<b>2006</b>	<b>2005</b>
	<b>(Rupees in '000)</b>	
Projects:		
- Gas distribution system	<b>497,299</b>	433,384
- Cost of buildings under construction	<b>108,119</b>	6,980
- Gas infrastructure rehabilitation and expansion project	<b>123,472</b>	6,123
	<b>728,890</b>	446,487
Stores and spares held for capital projects	<b>1,878,074</b>	1,945,027
Advances for land acquisition	<b>67,601</b>	2,972
Others	<b>391</b>	11,435
	<b>1,946,066</b>	1,959,434
	<b>2,674,956</b>	2,405,921

#### **18.9.1 Stores and spares held for capital projects**

Gas transmission	<b>643,779</b>	610,734
Gas distribution	<b>1,235,883</b>	1,380,777
	<b>1,879,662</b>	1,991,511
Provision for slow moving and obsolete stores	<b>(1,588)</b>	(46,484)
	<b>1,878,074</b>	1,945,027

Stores and spares held for capital projects include goods in transit amounting to Rs. 8.675 million (2005: Rs. 1.607 million).

#### **19 INTANGIBLE ASSETS**

	Cost at 1 July 2005	Addition	Cost at 30 June 2006	Amortisation 1 July 2005	Charge for the year	Accumulated amortisation at 30 June 2006	Book value at 30 June 2006	Amortisation rate on original cost
	<b>(Rupees in '000)</b>							<b>(%)</b>
Computer software	91,393	38,693	130,086	30,461	43,358	73,819	56,267	33.33
<b>2006</b>	<b>91,393</b>	<b>38,693</b>	<b>130,086</b>	<b>30,461</b>	<b>43,358</b>	<b>73,819</b>	<b>56,267</b>	
2005	-	91,393	91,393	-	30,461	30,461	60,932	

20	LONG-TERM INVESTMENTS	Percentage of holding (if over 10%)	2006 (Rupees in '000)	2005
	<b>Investments in related parties</b>			
	<i>Associated / subsidiary companies</i>			
	Inter State Gas System (Private) Limited 510,000 (2005: 510,000) ordinary shares of Rs. 10 each. (Joint venture company) 20.1	51	5,100	5,100
	Sui Southern Gas Provident Fund Trust Company (Private) Limited 100 (2005: 100) ordinary shares of Rs. 10 each. (Subsidiary company) 20.1	100	1	1
	<i>Quoted companies - available for sale</i>			
	Sui Northern Gas Pipelines Limited 1,900,178 (2005: 1,900,178) ordinary shares of Rs. 10 each (Associated company) 20.2		190,018	116,481
			<b>195,119</b>	121,582
	<b>Other Investments</b>			
	<i>Quoted companies - available for sale</i>			
	Pakistan Refinery Limited 250,000 (2005: 200,000) ordinary shares of Rs. 10 each		53,475	41,580
	United Bank Limited 62,746 (2005: 50,197) ordinary shares of Rs. 10 each		8,643	3,363
	<i>Unquoted companies (at cost)</i>			
	Pakistan Tourism Development Corporation 5,000 (2005: 5,000) ordinary shares of Rs. 10 each		50	50
			62,168	44,993
	Provision against impairment in value of investments at cost		(50)	(50)
			<b>62,118</b>	44,943
			<b>257,237</b>	166,525

**20.1** These companies are incorporated in Pakistan.

**20.2** Sale of 1,900,178 shares of Sui Northern Gas Pipelines Limited is restricted by Government of Pakistan due to its privatisation, till further directives.

21 LONG TERM LOANS AND ADVANCES - secured, considered good	2006	2005
	(Rupees in '000)	
Due from executives	9,799	10,325
Less: receivable within one year	(2,719)	(2,592)
	<b>7,080</b>	7,733
Due from other employees	140,982	145,886
Less: receivable within one year	(26,068)	(25,771)
	<b>114,914</b>	120,115
	<b>121,994</b>	127,848

21.1 Reconciliation of the carrying amount of loans and advances:	2006		2005	
	Executives	Other employees	Executives	Other employees
	(Rupees in '000)			
Balance at the beginning of the year	10,325	145,886	13,774	150,558
Disbursements	-	30,351	-	30,806
Transfers	2,817	(2,817)	-	-
Repayment	(3,343)	(32,438)	(3,449)	(35,478)
	<b>9,799</b>	<b>140,982</b>	10,325	145,886

**21.2** Above loans represent house building and transport loans to the employees under the terms of employment and are recoverable in monthly instalments over a period of six to twelve years. These loans are secured against the retirement benefit balances of respective employees and deposit of title deeds. Loans to the executive staff, carrying a mark-up of 10% per annum, have been discontinued under the revised compensation package of the company w.e.f. 01 January 2001. Loans to non-executive employees do not carry mark-up.

**21.3** The maximum aggregate amount of long term loans due from the executives at the end of any month during the year was Rs. 12.736 million (2005: Rs.13.774 million).

22 STORES, SPARES AND LOOSE TOOLS	2006	2005
	(Rupees in '000)	
Stores	387,415	185,159
Spares	652,137	549,746
Stores and spares in transit	35,494	208,971
Loose tools	1,403	1,433
	<b>1,076,449</b>	945,309
Provision against impaired stores and spares		
Balance as at 1 July	(15,999)	(16,407)
Provision made during the year	(48,394)	-
Written off during the year	1	408
Balance as at 30 June	(64,392)	(15,999)
	<b>1,012,057</b>	929,310

**22.1** Stores, spares and loose tools are held for the following operations

Transmission	814,607	700,160
Distribution	197,450	229,150
	<b>1,012,057</b>	929,310

23 STOCK-IN-TRADE	2006	2005
	(Rupees in '000)	
<b>Gas</b>		
Gas in pipelines	125,386	113,166
SNG stock	323	-
<b>Gas meters</b>		
Components	138,971	95,242
Work-in-process	16,231	10,062
Finished meters	4,268	8,848
	159,470	114,152
Provision during the year	(3,817)	-
	155,653	114,152
	281,362	227,318

**24 CUSTOMERS' INSTALLATION WORK-IN-PROGRESS** - at cost

This represents cost of work carried out by the company on behalf of the customers at their premises. Upon completion of work, the cost thereof is transferred to transmission and distribution cost and recoveries from such customers are shown as deduction there from as reflected in note 32 to these financial statements.

**25 TRADE DEBTS**

Considered good		
- secured	3,645,863	2,934,603
- unsecured	7,252,480	5,820,324
	10,898,343	8,754,927
Considered doubtful	1,306,229	1,133,334
	12,204,572	9,888,261
Provision against impaired debts	25.1 (1,306,229)	(1,133,334)
	10,898,343	8,754,927

**25.1 Movement of provision for doubtful debts**

Balance as at 1 July	1,133,334	1,239,436
Provision for the year	172,895	214,033
	1,306,229	1,453,469
Bad debts written off	-	(320,135)
Balance as at 30 June	1,306,229	1,133,334

**26 LOANS AND ADVANCES** - considered good

Current portion of long term loans:	21		
- Executives		2,719	2,592
- Other employees		26,068	25,771
		28,787	28,363
Advances to :			
- Executives	26.1	3,465	5,473
- Other employees		60,992	63,061
		64,457	68,534
		93,244	96,897

**26.1** The maximum aggregate amount of advances due from executives at the end of any month during the year was Rs. 5.224 million (2005: Rs. 5.570 million).

<b>27</b>	<b>TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>	<b>2006</b>	<b>2005</b>
		<b>(Rupees in '000)</b>	
	Advances for goods and services - unsecured, considered good	<b>86,109</b>	50,814
	Trade deposits - unsecured, considered good	<b>19,137</b>	21,387
	Prepayments	<b>37,437</b>	46,251
		<b><u>142,683</u></b>	<b><u>118,452</u></b>
<b>28</b>	<b>OTHER RECEIVABLES - considered good</b>		
	Receivable from Government of Pakistan (GoP) under exchange risk coverage scheme	<b>1,170,924</b>	1,225,479
	Gas development surcharge receivable from GoP	<b>710,303</b>	-
	Receivable from staff pension fund 38.1.3	<b>30,889</b>	19,615
	Receivable from staff gratuity fund- executive 38.1.3	<b>1</b>	44,243
	Balance receivable for sale of gas condensate	<b>106,253</b>	83,995
	Receivable from Sui Northern Gas Pipelines Limited (SNGPL) 28.1	<b>351,306</b>	1,139,778
	Receivable from Inter State Gas Systems (Pvt.) Limited	<b>-</b>	2,487
	Receivable from Jamshoro Joint Venture Limited (JJVL)	<b>402,969</b>	340,829
	Insurance claim receivable	<b>2,731</b>	5,024
	Sales tax receivable	<b>1,622,796</b>	342,060
	Claims receivable	<b>757</b>	757
	Miscellaneous receivables 28.2	<b>391,678</b>	490,910
		<b><u>4,790,607</u></b>	<b><u>3,695,177</u></b>
	Provision against impaired receivables	<b>(1,485)</b>	(1,485)
		<b><u>4,789,122</u></b>	<b><u>3,693,692</u></b>
<b>28.1</b>	This includes pipeline rental receivable of Rs. 99.999 million (2005: Rs. 30.446 million) and Rs. 250.571 million (2005: Rs. 1,102.670 million) receivable under the uniform cost of gas agreement with Sui Northern Gas Pipelines Limited (refer note 31.1 to the financial statements for detail).		
<b>28.2</b>	This includes Rs. 376.156 million (2005: Rs. 466.526 million) recoverable from GOP under deferred tariff adjustment		
<b>29</b>	<b>TAXATION - net</b>		
	Advance tax paid	<b>1,055,399</b>	697,195
	Provision for tax	<b>(499,116)</b>	(197,354)
		<b><u>556,283</u></b>	<b><u>499,841</u></b>
<b>30</b>	<b>CASH AND BANK BALANCES</b>		
	With banks:		
	On deposit accounts 30.1	<b>3,701,809</b>	1,085,698
	On current accounts	<b>107,962</b>	181,439
		<b><u>3,809,771</u></b>	<b><u>1,267,137</u></b>
	Cash in hand	<b>4,871</b>	2,066
		<b><u>3,814,642</u></b>	<b><u>1,269,203</u></b>
<b>30.1</b>	This includes Rs. 0.465 million (2005: Rs. 0.465 million) held under lien by a commercial bank against a bank guarantee issued on behalf of the company.		

**31 COST OF GAS**

	2006		2005	
	Volume in MCF *	(Rupees in '000)	Volume in MCF *	(Rupees in '000)
Gas in pipelines at 1 July	<b>884,925</b>	<b>113,166</b>	851,138	95,642
Gas purchases from:				
Pakistan Petroleum Limited	<b>43,277,283</b>	<b>3,532,123</b>	42,191,305	2,763,787
Oil and Gas Development Company Limited	<b>3,467,539</b>	<b>408,707</b>	3,065,807	310,008
BP (Pakistan) Exploration and Production Incorporated	<b>79,279,778</b>	<b>13,544,340</b>	75,860,133	11,092,061
Orient Petroleum Inc.	<b>26,556,074</b>	<b>4,318,991</b>	19,444,295	2,711,798
Eni Pakistan Limited	<b>113,263,420</b>	<b>23,505,253</b>	111,807,030	19,190,706
Mari Gas Company Limited	<b>290,845</b>	<b>7,283</b>	270,231	6,218
Sui Northern Gas Pipelines Limited	<b>283,604</b>	<b>33,377</b>	232,820	22,826
BHP Petroleum (Pakistan) Pty Limited	<b>35,934,222</b>	<b>4,901,220</b>	34,337,371	4,122,622
OMV (Pak) Exploration GmBH	<b>83,009,255</b>	<b>14,871,222</b>	80,378,126	12,665,259
	<b>385,362,020</b>	<b>65,122,516</b>	367,587,118	52,885,285
Gas available for sale	<b>386,246,945</b>	<b>65,235,682</b>	368,438,256	52,980,927
Gas consumed internally	<b>(1,081,851)</b>	<b>(169,808)</b>	(1,743,669)	(230,430)
Inward price adjustment 31.1		<b>(5,346,011)</b>	-	(5,824,625)
Gas in pipelines at 30 June	<b>(809,447)</b>	<b>(125,386)</b>	(884,925)	(113,166)
	<b>(1,891,298)</b>	<b>(5,641,205)</b>	(2,628,594)	(6,168,221)
	<b>384,355,647</b>	<b>59,594,477</b>	365,809,662	46,812,706

\* Thousand Cubic Feet.

**31.1** Under section 21 of the Oil and Gas Regulatory Authority Ordinance, 2002, the Government of Pakistan has issued a policy guideline to ensure the uniformity of gas prices for consumers throughout the country. Accordingly, under this policy guideline and pursuant to an agreement between the company and Sui Northern Gas Pipelines Limited effective from 1 July 2003, the cost of gas purchased is being worked out by both the companies on an overall average basis in such a manner that input of gas for both companies become uniform. Under this agreement the company with lower weighted average cost of gas is required to pay to the other company so that the overall weighted average rate of well head gas price of both the companies is the same. However, this averaging has not affected the profit and loss account of the company as in the absence of averaging, the simultaneous effect would have been to gas development surcharge account in the profit and loss account.

**32 TRANSMISSION, DISTRIBUTION AND SELLING COSTS**

		<b>2006</b>	2005
		<b>(Rupees in '000)</b>	
Salaries, wages and benefits		<b>2,202,975</b>	1,706,759
Contribution / accruals in respect of staff			
retirement benefit scheme	32.1	<b>239,174</b>	183,969
Depreciation on operating assets	18.6	<b>1,760,805</b>	2,054,374
Amortisation of intangible asset		<b>43,358</b>	30,461
Repairs and maintenance		<b>302,782</b>	309,787
Stores, spares and supplies consumed		<b>293,253</b>	197,745
Provision against doubtful debts		<b>172,895</b>	214,033
Gas consumed internally		<b>169,808</b>	230,430
Legal and professional charges		<b>37,194</b>	19,710
Electricity		<b>44,778</b>	25,001
Security expenses		<b>102,014</b>	84,425
Insurance and royalty		<b>57,137</b>	49,778
Travelling		<b>17,697</b>	13,528
Material and labour used on consumers' installation		<b>69,109</b>	38,658
Gas bills collection charges		<b>119,077</b>	42,060
Postage and revenue stamps		<b>38,802</b>	22,268
Rent, rates and taxes		<b>27,226</b>	20,359
Infrastructure development fee	32.2	<b>50,000</b>	50,000
Revenue expenses related to LNG		<b>79,639</b>	-
Others	32.3	<b>123,605</b>	34,119
		<b>5,951,328</b>	5,327,464
<b>Recoveries / allocations to:</b>			
Gas distribution system capital expenditure		<b>(528,911)</b>	(462,736)
Installation costs recovered from customers	24	<b>(114,841)</b>	(79,038)
		<b>(643,752)</b>	(541,774)
		<b>5,307,576</b>	4,785,690

**32.1 Contributions to / accrual in respect of staff retirement benefit schemes**

**2006**                      **2005**  
**(Rupees in '000)**

Contribution to the provident fund	<b>56,691</b>	50,705
Charge in respect of amount due to the pension funds:		
- Executive	<b>86,339</b>	65,522
- Non-Executive	<b>(25,526)</b>	6,808
Charge in respect of amount due to the gratuity funds:		
- Executive	<b>3,894</b>	(6,140)
- Non-Executive	<b>51,619</b>	20,846
Accrual in respect of unfunded post retirement:		
- Medical facility	<b>94,918</b>	55,948
- Gas facility	<b>888</b>	565
Expenses relating to the meter manufacturing division and construction division	<b>(29,649)</b>	(10,285)
	<b><u>239,174</u></b>	<b><u>183,969</u></b>

**32.2** This represents amount paid to Ministry of Petroleum & Natural Resources being SSGCL's share for infrastructural development fees.

**32.3 Transmission, distribution and selling costs - others**

Communication	<b>20,339</b>	7,260
Advertisement	<b>506</b>	-
Water charges	<b>5,892</b>	549
Subscriptions	<b>5,786</b>	5,400
Bank charges	<b>5,153</b>	3,702
Freight and handling	<b>4,562</b>	-
Miscellaneous	<i>32.4</i> <b>81,367</b>	17,208
	<b><u>123,605</u></b>	<b><u>34,119</u></b>

**32.4** This includes expenses amounting to Rs. 58.177 million (2005: Rs. 6.475 million) in respect of Inter State Gas Systems (Pvt.) Limited (ISGCL). Under the agreement with Sui Northern Gas Pipeline Limited, ISGCL and SSGCL, SSGCL is required to borne 51% expenses of ISGCL.

### 33 ADMINISTRATIVE EXPENSES

		2006	2005
		(Rupees in '000)	
Salaries, wages and benefits		614,550	826,917
Contribution / accruals in respect of staff retirement benefit scheme	33.1	18,451	84,156
Depreciation on operating assets	18.6	390,258	97,186
Repairs and maintenance		42,694	92,550
Stores, spares and supplies consumed		61,320	56,367
Legal and professional charges		55,799	90,523
Electricity		8,695	26,058
Security expenses		116	15,783
Insurance and royalty		10,395	5,432
Travelling		22,674	26,281
Postage and revenue stamps		1,067	2,781
Rent, rates and taxes		7,807	7,533
Others	33.2	52,344	103,924
		<u>1,286,170</u>	<u>1,435,491</u>

#### Recoveries / allocations to:

Recoveries from others	(7,749)	(16,799)
Meter manufacturing division	(15,052)	(31,400)
	<u>(22,801)</u>	<u>(48,199)</u>
	<u>1,263,369</u>	<u>1,387,292</u>

### 33.1 Contributions to / accrual in respect of staff retirement benefit schemes

		2006	2005
		(Rupees in '000)	
Contribution to the provident fund		14,088	19,621
Charge in respect of amount due to the pension funds			
- Executive		1,239	36,015
- Non-executive		(1,657)	1,017
Charge in respect amount due to the gratuity funds			
- Executive		56	(3,153)
- Non-executive		3,350	3,113
Accrual in respect of unfunded post retirement			
- Medical facility		1,362	27,232
- Gas facility		13	311
		<u>18,451</u>	<u>84,156</u>

### 33.2 Administrative expenses - others

Advertisement	34,265	35,343
Communication	-	13,662
Water charges	-	7,942
Subscriptions	-	3,811
Bank charges	-	457
Freight and handling	-	2,032
Miscellaneous	18,079	40,677
	<u>52,344</u>	<u>103,924</u>

34	<b>OTHER OPERATING EXPENSES</b>	2006	2005
		(Rupees in '000)	
	Auditors' remuneration		
	- Statutory audit	1,000	880
	- Special audits and certifications	50	230
	- Out of pocket expenses	200	200
		<u>1,250</u>	<u>1,310</u>
	Workers' profit participation fund	13.2 90,595	83,658
	Sports expenses	18,820	16,511
	Corporate social responsibility	10,000	8,698
	Net expenses on gas distribution Gawadar operation	7,285	-
	Earth quake relief activities	30,000	-
	Gas rupture	-	11,600
	Donation	50	-
	Exchange loss on payment of gas purchases	16,756	30,894
	Provision for slow moving / obsolete stores	3,498	4,313
		<u>178,254</u>	<u>156,984</u>
35	<b>OTHER OPERATING INCOME</b>		
	<b>Income from financial assets</b>		
	Late payment surcharge	292,097	263,221
	Return on:		
	- term and profit and loss bank deposits	110,212	70,849
	- staff loans	3,425	4,078
	Interest income - others	557,950	-
	Dividend income	125	574
		<u>963,809</u>	<u>338,722</u>
	<b>Income from investment in debts, loans, advances and receivables from related party</b>		
	Income from gas transportation - SNGPL	367,893	388,696
	Dividend income - SNGPL	5,701	4,751
		<u>373,594</u>	<u>393,447</u>
	<b>Income from other than financial assets</b>		
	Meter rentals	472,285	455,058
	Recognition of income against deferred credit	184,504	150,862
	Sale of gas condensate	408,360	350,016
	Income from gas transportation	187,666	147,818
	Royalty income	367,105	188,528
	Meter manufacturing division profit - net	35.1 80,299	48,215
	Recoveries from consumers	47,606	39,257
	Gain on sale of fixed assets	18.7 20,524	52,211
	Liquidated damages recovered	26,620	23,911
	Advertising income	5,492	-
	Income from sale of tender documents	1,315	2,215
	Miscellaneous	11,595	27,416
		<u>1,813,371</u>	<u>1,485,507</u>
		<u>3,150,774</u>	<u>2,217,676</u>

### 35.1 Meter manufacturing division profit - net

		2006	2005
		(Rupees in '000)	
Gross sales of gas meters			
- Company's consumption	35.1.1	296,643	212,566
- Outside sales		721,198	522,572
		<u>1,017,841</u>	<u>735,138</u>
Sales tax		(137,368)	(98,531)
Net sales		<u>880,473</u>	636,607
Cost of sales			
- Raw material consumed		654,820	480,294
- Packing cost		5,158	4,644
- Stores and spares		3,105	668
- Fuel, power and electricity		1,142	2,449
- Salaries wages and other benefits	35.1.2	69,814	68,268
- Insurance		1,149	506
- Repairs and maintenance		1,937	2,376
- Depreciation	18.6	52,707	3,893
- Other expenses		1,045	815
		<u>790,877</u>	<u>563,913</u>
Opening work in process		5,096	10,311
Closing work in process		(12,299)	(5,096)
		<u>(7,203)</u>	<u>5,215</u>
Cost of goods manufactured		<u>783,674</u>	<u>569,128</u>
Opening stock of finished goods		8,848	4,517
Closing stock of finished goods		(4,268)	(8,848)
		<u>4,580</u>	<u>(4,331)</u>
Cost of goods sold		<u>788,254</u>	<u>564,797</u>
Gross profit		92,219	71,810
Administrative expenses		(14,944)	(23,595)
Operating profit		77,275	48,215
Other income		3,024	-
Net profit		<u>80,299</u>	<u>48,215</u>

**35.1.1** Gas meters used by the company are included in operating assets at manufacturing cost (including sales tax). However, sales tax thereon is paid at commercial selling prices, under the provisions of Sales Tax Act, 1990.

<b>35.1.2</b> Salaries, wages and other benefits	67,041	64,715
Provident fund contribution	972	964
Pension Fund	1,069	1,819
Gratuity	732	770
	<u>69,814</u>	<u>68,268</u>

<b>36</b>	<b>FINANCE COST</b>	<b>2006</b>	<b>2005</b>
		<b>(Rupees in '000)</b>	
	Interest, commitment charges, exchange risk coverage fee and Government guarantee fee on foreign currency loans	<b>23,807</b>	133,590
	Financial charges on liabilities against assets subject to finance lease	-	1,661
	Mark-up on :		
	- Redeemable capital	<b>109,033</b>	179,426
	- Local currency financing	<b>578,553</b>	163,554
	- Short term financing	<b>97,716</b>	28,124
	- Consumers' deposits	<b>56,889</b>	48,028
	- Workers' profit participation fund	<b>1,072</b>	817
	- Others	<b>523,390</b>	7,817
		<b><u>1,390,460</u></b>	<b><u>563,017</u></b>

### **37**      **TAXATION**

	For the year		
	- Current	<b>417,116</b>	197,354
	- Prior	<b>82,000</b>	378,822
	- Deferred	<b>329,393</b>	-
		<b><u>828,509</u></b>	<b><u>576,176</u></b>

#### **37.1**      Relationship between accounting profit and tax expense for the year is as follows:

	Accounting profit for the year	<b><u>1,720,226</u></b>	<b><u>1,588,677</u></b>
	Tax charge @ 35% (2005: 35%)	<b>602,079</b>	556,037
	Tax effect of expenses that are not deductible in determining taxable profit	<b>124,784</b>	21,738
	Effect of lower tax rate on dividend income	<b>(1,748)</b>	(1,599)
	Prior years' tax charge	<b>82,000</b>	-
	Effect of adjustment in opening WDV	<b>21,414</b>	-
	Others	<b>(20)</b>	-
		<b><u>828,509</u></b>	<b><u>576,176</u></b>

## 38 STAFF RETIREMENT BENEFITS

### 38.1 Funded post retirement pension and gratuity schemes

38.1.1 As mentioned in note 5.13 to these financial statements, the company operates approved funded pension and gratuity schemes for all employees. Contributions are made to these schemes based on actuarial recommendations. Latest actuarial valuations were carried out as at 30 June 2006 under the projected unit credit method for both non-executive and executive staff members.

#### 38.1.2 Fair value of plan assets and present value of obligations

The fair value of plan assets and present value of defined benefit obligations of the pension and gratuity schemes at the valuation date were as follows:

	Executives		Non-executives	
	Pension	Gratuity	Pension	Gratuity
	------(Rupees in '000)-----			
Fair value of plan assets	662,797	1,291,147	349,276	1,154,880
Present value of defined benefit obligation	(452,255)	(1,320,893)	(7,014)	(883,080)
Net surplus / (deficit)	210,542	(29,746)	342,262	271,800
Unrecognised past service (gain)/cost	127,428	(268,840)	-	-
Unrecognised actuarial loss / (gain)	(337,953)	298,587	(311,390)	(302,672)
	2006	17	30,872	(30,872)
	2005	19,615	44,243	-

#### 38.1.3 Movement in amount receivable from / (payable to) defined benefit plans

Movements in amount receivable from / (payable to) staff retirement benefit funds during the year are as follows:

	Executives		Non - executives	
	Pension	Gratuity	Pension	Gratuity
	------(Rupees in '000)-----			
Asset / (liability) as on 1 July 2005	19,615	44,243	-	-
Charge for the year	38.1.4 (87,578)	(3,950)	27,183	(54,969)
Payments during the year	67,980	(40,292)	3,689	24,097
Asset / (liability) as on 30 June 2006	17	1	30,872	(30,872)
	2005	19,615	44,243	-

#### 38.1.4 Amount recognised in the profit and loss account

Amounts charged to the profit and loss account during the current year in respect of the above schemes were as follows:

	Executives		Non-Executives	
	Pension	Gratuity	Pension	Gratuity
	------(Rupees in '000)-----			
Current service cost	32,053	69,600	-	53,968
Mark-up cost	54,959	92,369	629	85,861
Expected return on plan assets	(41,911)	(93,251)	(16,479)	(84,860)
Recognition of actuarial loss / (gain)		24,845	(11,333)	
Recognition of past service cost / (gain)	42,477	(89,613)	-	-
	2006	87,578	3,950	54,969
	2005	101,537	(9,293)	7,825
Actual return	2006	78,604	178,569	53,334
	2005	130,357	80,477	71,394

### 38.1.5 Principal actuarial assumptions

Significant assumptions used for the valuation of above schemes are as follows:

	Executives and Non-Executives	
	2006	2005
	(%)	(%)
Discount rate	10	9
Expected rate of increase in salary level	9	8
Expected rate of return on plan assets	10	9
Increase in pension	3	3

### 38.2 Unfunded post retirement medical benefit and gas supply facilities

38.2.1 As mentioned in note 5.13 to these financial statements the company provides free medical and gas supply facilities to its retired executive employees. The free gas supply facility has been discontinued for employees who had retired after 31 December 2000. The latest valuations of the liability under these schemes were carried out as at 30 June 2006 under the projected unit current cost method, results of which are as follows:

		Post retirement	Post retirement
		medical facility	gas facility
		(Rupees in '000)	
Projected benefit obligation		782,340	28,202
Unrecognised actuarial (loss) / gain		(40,680)	25,697
Liability recognised in the balance sheet	2006	<u>741,660</u>	<u>53,899</u>
	2005	<u>664,308</u>	<u>54,491</u>

### 38.2.2 Movement in net liability recognized

Movements in net liability recognized during the year are as follows:

(Asset) / liability as on 1 July 2005		664,308	54,491
Charge for the year		96,280	901
Payments during the year		(18,928)	(1,493)
(Asset) / liability as on 30 June 2006	2006	<u>741,660</u>	<u>53,899</u>
	2005	<u>664,308</u>	<u>54,491</u>

38.2.3 Amounts charged to the profit and loss account during the current year in respect of the above benefits are as follows:

Current service cost		32,425	-
Mark-up cost - net		63,855	2,665
Amortisation of actuarial gain		-	(1,764)
	2006	<u>96,280</u>	<u>901</u>
	2005	<u>83,180</u>	<u>876</u>

38.2.4 Significant assumptions used for the valuation of above schemes are as follows:

	<b>Executives</b>	
	<b>2006</b>	2005
	(%)	(%)
Discount rate	<b>10</b>	9
Medical inflation rate	<b>6.5</b>	6
Gas inflation rate	<b>7</b>	-

**39 DETAILS OF INVESTMENTS BY EMPLOYEES  
RETIREMENT BENEFIT FUNDS**

Details of the value of investments by the Provident, Gratuity and Pension funds based on respective financial statements at 30 June 2006 and 2005, are as follows:

	<b>2006</b>	2005
	(Rupees in '000)	
	<b>Based on unaudited financial statements</b>	Based on audited financial statements
Executive staff provident fund	<b>429,963</b>	437,702
Non-executive staff provident fund	<b>386,007</b>	388,853
Executive benevolent fund	<b>25,367</b>	23,367
Non-executive staff gratuity fund	<b>593,374</b>	575,500
Executive staff gratuity fund	<b>454,228</b>	497,500
Executive staff pension fund	<b>280,592</b>	282,308
Non-executive staff pension fund	<b>111,703</b>	107,703

**40 EARNINGS PER SHARE - basic and diluted**

	<b>2006</b>	2005
	(Rupees in '000)	
Profit after taxation	<b>891,717</b>	1,012,501
	(Number of shares)	
Average number of ordinary shares	<b>671,174,331</b>	671,174,331
	(Rupees)	
Earnings per share - basic and diluted	<b>1.33</b>	1.51

## 41 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to chief executives, directors and executives of the company are given below:

	30 June 2006		30 June 2005	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees in 000)			
Managerial remuneration	1,818	196,777	1,729	181,041
Housing	600	82,800	600	75,260
Utilities	109	18,400	119	17,392
Retirement benefits	392	40,293	-	55,692
	<u>2,919</u>	<u>338,270</u>	<u>2,448</u>	<u>329,385</u>
Number	<u>1</u>	<u>232</u>	<u>1</u>	<u>215</u>

41.1 The Chairman, Chief Executive and certain executives are also provided company maintained vehicles in accordance with their entitlement. In addition, the Chairman of the company was paid Rs.0.3 million (2005: Rs. 0.3 million). All executives are also provided free medical facilities in accordance with their entitlement.

41.2 Aggregate amount charged in these financial statements in respect of fee paid to 14 directors was Rs.0.031 million (2005: Rs. 0.047 million for 14 directors).

## 42 CAPACITY AND ACTUAL PERFORMANCE

### 42.1 Natural gas transmission

	30 June 2006		30 June 2005	
	MMCF	HM3	MMCF	HM3
<i>Transmission operation</i>				
Capacity - annual rated capacity at 100% load factor with compression	<u>385,805</u>	<u>108,696,122</u>	<u>372,300</u>	<u>104,891,244</u>
Utilisation - volume of gas transmitted	<u>383,808</u>	<u>108,133,490</u>	<u>365,589</u>	<u>103,000,496</u>
Capacity utilisation factor (%)	<u>99.5</u>	<u>99.5</u>	<u>98.2</u>	<u>98.2</u>

## 42.2 Natural gas distribution

The company has no control over the rate of utilisation of its capacity as the use of available capacity is dependent on off-takes by the consumers.

## 42.3 Meter manufacturing division

During the year meter manufacturing division produced and assembled 513,500 meters (2005: 400,200 meters) against an annual capacity of 310,000 meters on a single shift basis.

## 43 TRANSACTIONS WITH RELATED PARTIES

The company has related party relationship with subsidiary company, Sui Northern Gas Pipeline Limited (associated company), employees benefit plans (notes 5.13 and 38) and the company's directors and executive officers (including their associates). Purchase and sale of gas from / to related parties are determined at rates finalized and notified by Ministry of Petroleum and Natural Resources and Oil and Gas Regulatory Authority and the prices and other conditions are not influenced by the company (comparable uncontrolled price method).

The details of transactions with related parties not disclosed elsewhere in these financial statements are as follows:

	2006	2005
	(Rupees in '000)	
Pipeline rental income	367,893	388,696
Dividend income	5,701	4,751
Sale of gas meters	622,233	520,630
Sale of pipes	251	85,704
Allocation of expenses of Inter State Gas System (Private) Limited on the basis of joint venture agreement	58,178	6,475
Contribution to provident fund	56,691	70,326
Accrual in respect of obligation to defined benefit plans	119,314	124,028

Pipeline rental income is determined at cost plus method and comparable prices for the specific category of pipeline and other conditions affecting the determination of pipeline rental are not identifiable.

Sale of gas meters is made at cost plus method. The company is the only manufacturer of gas meters in the country and as such it is difficult to determine the comparable uncontrolled prices in the country. However, the prices of comparable goods available in international market are not materially different from the prices at which the goods (meters) are sold by the company.

Contribution to the defined contribution and benefit plans are in accordance with the terms of the entitlement of the employees and / or actuarial advice. Balance payable to / receivable from these employees benefit plans are disclosed in notes 11, 13, 28 and 38 to these financial statements.

Remuneration to the executive officers of the company (disclosed in note 41 to the financial statements) and loans and advances to them (disclosed in notes 21 and 26 to the financial statements) are determined in accordance with the terms of their employment.

Mark-up free security deposits for gas connections to the executive staff of the company is received at rates prescribed by the Government of Pakistan.

#### 44 MARK-UP / INTEREST RATE RISK

Interest / mark-up risk arises from the possibility that changes in interest / mark-up will affect the value of financial instrument. Information about the company's exposures to mark-up / interest rate risk based on contractual refinancing and maturity dates, whichever is earlier, at 30 June 2006 is as follows:

	Effective mark-up / interest rate (%)	Mark-up / interest bearing				Non mark-up/ interest bearing	Total
		Maturity less than one month	Maturity between one month to one year	Maturity between one year to five years	Maturity after five years		
		(Rupees in '000)					
<b>2 0 0 6</b>							
<b>Financial assets</b>							
Investments	-	-	-	-	-	257,237	257,237
Loans and advances	10	967	8,416	30,147	-	175,708	215,238
Trade debts	-	-	-	-	-	10,898,343	10,898,343
Trade deposits and prepayments	-	-	-	-	-	22,263	22,263
Interest accrued	-	-	-	-	-	8,237	8,237
Other receivables	-	-	-	-	-	789,168	789,168
Cash and bank balances	0.5 to 7.5	3,701,809	-	-	-	112,833	3,814,642
		<u>3,702,776</u>	<u>8,416</u>	<u>30,147</u>	<u>-</u>	<u>12,263,789</u>	<u>16,005,128</u>
<b>Financial liabilities</b>							
Long term financing	7.57 to 10.56	-	1,519,483	8,725,052	-	-	10,244,535
Long term deposits	5	-	-	-	1,230,131	859,296	2,089,427
Trade and other payables	-	-	-	-	-	13,970,366	13,970,366
Interest and mark-up accrued	-	-	-	-	-	674,716	674,716
Short term borrowing	8.63 to 10.06	-	1,164,753	-	-	-	1,164,753
		<u>-</u>	<u>2,684,236</u>	<u>8,725,052</u>	<u>1,230,131</u>	<u>15,504,378</u>	<u>28,143,797</u>
On-balance sheet gap (a)		<u><b>3,702,776</b></u>	<u><b>(2,675,820)</b></u>	<u><b>(8,694,905)</b></u>	<u><b>(1,230,131)</b></u>	<u><b>(3,240,589)</b></u>	<u><b>(12,138,669)</b></u>
<b>2 0 0 5</b>							
<b>Financial assets</b>							
Investments	-	-	-	-	-	166,525	166,525
Trade debts	-	-	-	-	-	8,754,927	8,754,927
Trade deposits and prepayments	-	-	-	-	-	25,845	25,845
Interest accrued	-	-	-	-	-	7,458	7,458
Other receivables	-	-	-	-	-	2,822,733	2,822,733
Cash and bank balances	1 to 4	1,085,698	-	-	-	183,505	1,269,203
		<u>1,085,698</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,960,993</u>	<u>13,046,691</u>
<b>Financial liabilities</b>							
Long term financing	3.23 to 15	-	1,461,144	7,203,180	-	-	8,664,324
Long-term deposits	5	-	-	-	1,785,403	21,292	1,806,695
Trade and other payables	11.25	-	83,658	-	-	9,212,689	9,296,347
Interest and mark-up accrued	-	-	-	-	-	185,020	185,020
Short term borrowing	5.21 to 8.21	-	220,000	-	-	-	220,000
		<u>-</u>	<u>1,764,802</u>	<u>7,203,180</u>	<u>1,785,403</u>	<u>9,419,001</u>	<u>20,172,386</u>
On-balance sheet gap (a)		<u><b>1,085,698</b></u>	<u><b>(1,764,802)</b></u>	<u><b>(7,203,180)</b></u>	<u><b>(1,785,403)</b></u>	<u><b>2,541,992</b></u>	<u><b>(7,125,695)</b></u>

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

#### 45 CASH AND CASH EQUIVALENTS

	2006	2005
	(Rupees in '000)	
Cash and bank balances	<b>3,814,642</b>	1,269,203
Short term borrowings	<b>(1,164,753)</b>	(220,000)
	<u><b>2,649,889</b></u>	<u>1,049,203</u>

#### 46 CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted.

At 30 June 2006, the financial assets which were subject to credit risk amounted to Rs. 11.993 billion (2005: Rs. 11.07 billion). The company believes that it is not exposed to major concentration of credit risk. The company attempts to control credit risks by monitoring credit exposures, including transactions with specific customers and continuing assessment of credit worthiness of customers.

## **47 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying values of all financial instruments reflected in the financial statements approximate their fair values except for investment in unquoted companies which are reflected at cost less impairment losses.

## **48 FOREIGN CURRENCY RISK MANAGEMENT POLICY**

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The company is exposed to foreign risk on gas purchases, imports and borrowings that are entered in a currency other than Pak Rupees. However, the Company is not exposed to any foreign currency risk on foreign currency loan which is hedged under exchange risk guarantee scheme of Government of Pakistan.

## **49 ACCOUNTING ESTIMATES AND JUDGEMENTS**

### **49.1 Income taxes**

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

### **49.2 Pension, gratuity and post retirement medical and gas facilities**

Certain actuarial assumptions have been adopted as disclosed in note 38.1.5 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

### **49.3 Property, plant and equipment**

In accordance with the accounting policy, the management carries out an annual assessment of depreciable amount and useful lives of fixed assets. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

### **49.4 Trade debtors**

The company reviews its receivable against provision required there against on a ongoing basis, and appropriate provision is made against outstanding receivable based on systematic basis as approved by the Board of Directors.

### **49.5 Provision for obsolete stock**

The management continuously reviews its inventory for existence of any items which may have become obsolete. These estimates against slow moving and obsolete items is made based on systematic basis as approved by the Board of Directors.



#### **49.6 Fair value of investment**

Management has determined fair value of certain investments by using quotations from active market conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate, etc.) and therefore, cannot be determined with precision.

#### **50 NON ADJUSTING EVENTS AFTER BALANCE SHEET DATE**

The Board of Directors have proposed a final dividend for the year ended 30 June 2006 of Rs. \_\_\_\_\_ per share, amounting to Rs. \_\_\_\_\_ million at their meeting held on \_\_\_\_\_, for approval for the members at the annual general meeting to be held on \_\_\_\_\_.

#### **51 DATE OF AUTHORISATION**

These financial statements were authorised for issue in Board of Directors meeting held on \_\_\_\_\_.

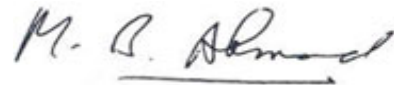
#### **52 GENERAL**

**52.1** The comparative figures have been arranged and reclassified wherever necessary for the purpose of comparisons.

**52.2** Figures have been rounded off to the nearest thousand rupees.



\_\_\_\_\_  
**Chairman**



\_\_\_\_\_  
**Managing Director**