

Notes to the Condensed Consolidated Interim Financial Statements (un-audited)

for the half year ended 31 December 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.

Sui Southern Gas Provident Fund Trust (Private) Ltd is wholly owned subsidiary of Sui Southern Gas Company Limited (the holding company). The company's registered office is situated at ST-4/B, Block-14, Sir Shah Muhammad Suleman Road, Gulshan-e-Iqbal Karachi. The company was formed to facilitate administration of employees' retirement funds.

Inter State Gas Systems (Private) Limited ("The Jointly Controlled Entity") is incorporated in Pakistan as a private limited company and is a joint venture between Sui Southern Gas Company Limited (SSGCL) and Sui Northern Gas Pipelines Limited (SNGPL). ISGS has been established to explore and make arrangements for import of natural gas from neighbouring countries. The controlling interest of holding company in Inter State Gas Systems (Private) Limited is 51%.

1.1 Basis of consolidation

The group consists of:

- Sui Southern Gas Company Limited (SSGCL)
- Sui Southern Gas Provident Fund Trust (Private) Limited

The condensed consolidated interim financial statements include the financial statements of SSGCL - Holding Company and its subsidiary company - "The Group"

The assets and liabilities of subsidiary company have been consolidated on a line-by-line basis and the carrying value of investments held by the Holding Company is eliminated against the subsidiary's share holder's equity in the consolidated financial statements.

Intra-group balances and transactions have been eliminated.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" and are being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984 and the listing regulations of the Stock Exchanges of Pakistan.

The condensed consolidated interim financial statements comprise of the consolidated balance sheet as at 31 December 2006 and the consolidated profit and loss account, consolidated statements of changes in equity and the consolidated cash flow statement for the Half year ended 31 December 2006 which are unaudited.

The comparative balance sheet presented in these condensed consolidated interim financial statements as at 30 June 2006 has been extracted from the audited consolidated financial statements of the company for the year ended 30 June 2006, whereas the comparative profit and loss account, statement of changes in equity and the cash flow statement are stated from the unaudited consolidated financial statements for the Half Year ended 31 December 2006.

3 Significant accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are the same as those applied in preparation of the annual audited consolidated financial statements of the company for the year ended 30 June 2006.

4 Estimates

The preparation of financial statements requires management to make judgments, estimates and assumption that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 30 June 2006.

5 Property, plant and equipment

	Note	31 December 2006 (Rupees in million)	30 June 2006
Operating assets	5.1	22,672.5	22,224.9
Capital work-in-progress	5.2	5,330.3	2,675.0
		<u>28,002.8</u>	<u>24,899.9</u>

5.1 Additions to and disposal of fixed assets

Details of addition to and disposal of operating fixed assets during the half year ended 31 December 2006 are as follows:

	Cost of additions	Written down value of disposals
	(Rupees in million)	
Owned		
Leasehold land	0.3	-
Building on leasehold land	45.1	-
Gas transmission and distribution pipeline system	1,053.4	-
Plant, machinery and other equipment	254.2	-
Motor vehicles	85.9	0.015
	<u>1,438.9</u>	<u>0.015</u>

	Note	31 December 2006 (Rupees in million)	30 June 2006
5.2 Capital work-in-progress			
Projects:			
- Gas distribution system		929.8	497.3
- Cost of buildings under construction		99.3	108.1
- Gas infrastructure rehabilitation and expansion project		1,342.5	123.5
		<u>2,371.6</u>	<u>728.9</u>
Stores and spares held for capital projects		2,870.4	1,878.1
Advances for land acquisition		68.2	67.6
Others		20.1	0.4
		<u>5,330.3</u>	<u>2,675.0</u>
6 Long-term investments			
- Investments in related parties		136.9	190.0
- Other investments		74.6	62.1
		<u>211.5</u>	<u>252.1</u>
7 Share of investment in jointly controlled entity			
Inter State Gas System (Private) Limited			
510,000 ordinary shares of Rs. 10 each	7.1	5.1	5.1

7.1 This represents a 51% (June 2006: 51%) interest of SSGCL share in inter State Gas Systems (Private) Limited (the jointly controlled entity).

8 Trade debts			
Considered good - secured		3,824.4	3,645.9
Considered good - un-secured		9,687.7	7,252.4
		<u>13,512.1</u>	<u>10,898.3</u>
Considered doubtful		1,405.8	1,306.2
		<u>14,917.9</u>	<u>12,204.5</u>
Provision for doubtful debts		(1,405.8)	(1,306.2)
		<u>13,512.1</u>	<u>10,898.3</u>
9 Other receivables - considered good			
Receivable from Government of Pakistan (GoP) under exchange risk coverage scheme		542.6	1,170.9
Gas development surcharge receivable from GoP		-	710.3
Receivable from Sui Northern Gas Pipeline Limited (SNGPL)	9.1	2,052.2	351.3
Receivable from Jamshoro Joint Venture Limited (JJVL)		120.4	403.0
Sales tax receivable		2,691.0	1,622.8
Receivable from staff pension fund		55.9	30.9
Receivable for sale of gas condensate		54.9	106.3
Insurance claims receivable		4.5	2.7
Claim receivable		0.8	0.8
Miscellaneous receivable	9.2	482.2	391.6
		<u>6,004.5</u>	<u>4,790.6</u>
Provision against impaired receivables		(1.5)	(1.5)
		<u>6,003.0</u>	<u>4,789.1</u>

9.1 This includes pipeline rental receivable of Rs. 294.3 million (30 June 2006: Rs. 100 million) and Rs. 1,756.8 million (30 June 2006: Rs. 250.6 million) receivable under the uniform cost of gas agreement.

9.2 This includes Rs. 453.7 million (30 June 2006: Rs. 376.2 million) recoverable from GoP under deferred tariff adjustment and Rs. Nil (30 June 2006: Rs. 0.001 million) receivable from the executive staff gratuity fund.

	Note	31 December 2006 (Rupees in million)	30 June 2006
10 Trade and other payables			
Creditors for:			
- gas		17,018.2	12,589.3
- supplies		284.1	49.5
		<u>17,302.3</u>	<u>12,638.8</u>
Amount received from customers / GoP for laying of mains etc.		2,654.4	2,217.2
Gas development surcharge payable to the GoP		2,283.8	-
Accrued liabilities		739.4	974.5
Provision for compensated absences - non executives		57.0	57.0
Payable to gratuity fund - non executive		31.3	30.9
Workers' profit participation fund		38.4	20.6
Deposits / retention money		139.5	109.7
Bills payable		190.0	15.5
Advance for sharing right of way		18.1	18.1
Unclaimed dividend		66.3	26.9
Withholding tax payable		13.5	2.1
Unclaimed term finance certificate redemption profit		3.7	4.2
Inter State Gas Systems (Private) Limited (ISGSL)		14.3	14.9
Others		83.2	79.8
		<u>23,635.2</u>	<u>16,210.2</u>
11 Deferred credit			
- Government contributions / grants			
Balance at 1 July		571.7	183.8
Additions during the period		12.2	418.6
		<u>583.9</u>	<u>602.4</u>
Transferred to profit and loss account		(14.7)	(30.7)
		<u>569.2</u>	<u>571.7</u>
- Contribution from customers			
Balance at 1 July		1,673.8	1,607.5
Additions during the period		182.2	220.1
		<u>1,856.0</u>	<u>1,827.6</u>
Transferred to profit and loss account		(72.2)	(153.8)
		<u>1,783.8</u>	<u>1,673.8</u>
		<u>2,353.0</u>	<u>2,245.5</u>
12 CONTINGENCIES AND COMMITMENTS			
12.1 Claims against the company not acknowledged as debt	12.12	880.9	747.1
12.2 Aggregate commitments for capital and other expenditure		3,203.9	3,354.2
12.3 Guarantees issued on behalf of the company		17.1	4.8
12.4 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 (30 June 2006: Rs. 0.5 million). Loan outstanding at the period end was Rs. 20.7 million (30 June 2006: Rs. 21.9 million).			

- 12.5** Jamshoro Power Company Limited (JPCL) (formerly WAPDA) has lodged a claim against the company amounting to Rs. 381.4 million (30 June 2006: Rs. 491.1 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's failure to uplift minimum quantities during certain other periods. Provision against this liability has not been made as the management is confident that ultimately the resolution of the claim lodged would be in favour of the company.
- 12.6** JPCL has also raised a claim of Rs. 5.8 million (30 June 2006: Rs. 98.9 million) for the alleged low Gas Chlorific Value (GCV) measurement for the period from July 2002 to September 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 management is confident that ultimately the resolution of the claim would be in favour of the company.
- 12.7** 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.
- 12.8** Oil and Gas Development Company Limited (OGDCL) has lodged a claim of Rs. 533.4 million (30 June 2006: Rs. 533.4 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 OGDCL 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 (MPNR), Government of Pakistan for the resolution of the matter. Provision has not been made in these financial statements for the claim as the management is confident that ultimately the resolution of claim will be in favour of the company.
- 12.9** 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. 79.7 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. 31.2 million (30 June 2006: Rs. 34.0 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 matter has been referred to arbitration by HCPC and the management is confident that this matter would be resolved without any material liability. Hence, no provision regarding the above said amount has been made in these financial statements.
- 12.10** Sui Northern Gas Pipelines Limited (SNGPL) has lodged a claim against the company amounting to Rs. 36.9 million (30 June 2006: Rs. 36.9 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 were 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.
- 12.11** Income Tax Appellate Tribunal (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 the company's 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.
- 12.12** The management is confident that ultimately these claims (note 12.1) would not be payable.

	Note	2nd Quarter		Year to date	
		Oct - Dec 2006	Oct - Dec 2005	Jul - Dec 2006	Jul - Dec 2005
(Rupees in million)					
13 Other operating expenses					
Auditors' remuneration		0.3	0.4	0.6	0.6
Workers' profit participation fund		9.2	14.4	38.4	42.1
Sports expenses		8.0	11.0	8.2	11.0
Corporate social responsibility		1.4	0.4	2.9	0.4
Net expense on gas distribution Gwadar operation		2.0	-	4.5	-
Exchange loss on payment of gas purchases		33.9	-	51.3	-
Provision for slow moving / obsolete stores		30.4	-	33.0	-
		<u>85.2</u>	<u>26.2</u>	<u>138.9</u>	<u>54.1</u>
14 Other operating income					
- Income from financial assets					
Late payment surcharge		59.9	65.9	134.2	123.3
Return on term deposits		30.3	27.7	40.2	34.1
Return on staff loans		0.4	1.5	1.3	1.5
Interest income - others		123.0	-	210.7	-
		<u>213.6</u>	<u>95.1</u>	<u>386.4</u>	<u>158.9</u>
- Income from investment in debts, loans, advances and receivables from related party					
Income from gas transportation - SNGPL		98.0	93.2	194.3	186.4
Dividend income - SNGPL		5.7	5.7	5.7	5.7
		<u>103.7</u>	<u>98.9</u>	<u>200.0</u>	<u>192.1</u>
- Income from other than financial assets					
Meter rentals		125.1	117.0	248.1	232.7
Recognition of income against deferred credit		44.8	49.0	86.9	82.3
Sale of gas condensate		62.7	90.4	147.5	183.8
Gas transportation		34.0	43.9	87.8	86.9
Royalty income		256.3	77.5	424.2	147.9
Meter manufacturing profit - net		16.0	20.0	41.9	38.7
Recoveries from customers		7.3	11.2	13.9	37.0
Miscellaneous		32.8	13.6	50.1	46.8
		<u>896.3</u>	<u>616.6</u>	<u>1,686.8</u>	<u>1,207.1</u>
15 Taxation					
Current		49.1	320.4	243.3	504.5
Prior year		-	82.0	-	82.0
Deferred	15.1	0.7	(147.0)	0.7	(146.9)
		<u>49.8</u>	<u>255.4</u>	<u>244.0</u>	<u>439.6</u>

15.1 This represents deferred tax charge for the period net of prior year reversals on account of accelerated depreciation and provisions.

16 Transactions with related parties

The related parties comprise of subsidiary companies, associated companies, joint venture companies, state controlled entities, staff retirement benefit plans and the company's directors and key management personnel (including their associates). Purchase and sale of gas from / to related parties are determined at rates fixed and notified by Ministry of Petroleum & 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:

	for the half year ended	
Note	31 Dec 2006 (Rupees in million)	31 Dec 2005
Sui Northern Gas Pipeline Limited		
- Pipeline rental income	194.3	186.4
- Sale of gas meters	314.4	295.1
- Sale of pipes	-	1.0
- Gas purchases	24.7	13.5
- Uniform cost of gas	4,869.8	3,536.9
- Dividend income	5.7	6.0
Oil and Gas Development Company Limited		
- Pipeline rental income	20.1	20.5
- Gas purchases	7,866.5	6,235.1
Pakistan Petroleum Limited		
- Gas purchases	3,438.9	3,017.7
Pakistan Machine Tool Factory Limited		
- Purchase of meter parts	26.3	-
- Gas sales	18.0	15.0
Pakistan State Oil Company Limited		
- Purchase of oil and lubricants	38.0	20.6
Inter State Gas Systems (Private) Limited		
- Reimbursement of expenses on the basis of joint venture agreement	49.7	6.0
Staff retirement benefit plans		
- Contribution to provident fund	16.1 37.5	35.1
- Contribution to pension fund	(19.3)	33.5
- Contribution to gratuity fund	2.3	20.5
Remuneration of key management personnel (executive staff)	16.2 82.6	61.0

16.1 Contribution to the defined contribution and benefit plans are in accordance with the terms of the entitlement of employees and actuarial advice.

16.2 Remuneration and loans to the executives are as per the terms of employment.

17 General

17.1 These condensed interim financial statements were authorised for issue on 28 February 2007 by the Board of Directors of the company.

17.2 Previous period's figures have been rearranged wherever necessary, for the purpose of comparison.

17.3 Figures have been rounded off to the nearest tenth million rupees.

Aitzaz Shahbaz
Chairman

Munawar B. Ahmad. P.E.
Managing Director