

NOTES TO THE CONDENSED UNCONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

for the six months period ended 31 December 2007

1. Status and nature of business

Sui Southern Gas Company Limited ("the Company") 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

The condensed unconsolidated interim financial statements for six months period ended 31 December 2007 are un-audited but subject to limited scope review by auditors and have been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting" as applicable in Pakistan. These condensed unconsolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the year ended 30 June 2007.

These condensed unconsolidated interim financial statements are being submitted to the shareholders as required by listing regulations of Karachi, Lahore and Islamabad Stock Exchanges and section 245 of the Companies Ordinance, 1984

3. Significant accounting policies

The significant accounting policies applied for the preparation of these condensed unconsolidated interim financial statements are the same as those applied in preparation of the annual audited financial statements of the Company as at and for the year ended 30 June 2007.

4. Estimates

The preparation of condensed unconsolidated interim 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 as at and for the year ended 30 June 2007.

5. Financial risk management

The Company's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2007.

6. Property, plant and equipment

	31 December 2007 (un-audited)	30 June 2007 (audited)
	(Rupees in million)	
Operating assets	27,561.7	27,020.4
Capital work in progress	5,304.5	4,313.4
	<u>32,866.2</u>	<u>31,333.8</u>

Details of addition to and disposal of property, plant and equipment during the six months period ended 31 December 2007 are as follows:

	Cost of additions / transfers	Written down value of (disposals / transfers)
	(Rupees in million)	
Operating assets		
Owned		
Leasehold land	9.6	-
Buildings on leasehold land	97.5	-
Roads and pavements	17.7	-
Gas transmission & distribution pipeline system	1,325.1	-
Plant, machinery and other equipment	170.2	(0.1)
Motor vehicles	58.2	(8.2)
	<u>1,678.3</u>	<u>(8.3)</u>
Capital work-in-progress		
Projects		
- Gas distribution system	1,849.0	(1,150.0)
- Cost of buildings under construction	34.0	(98.0)
- Gas infrastructure rehabilitation and expansion project	442.0	(175.0)
- Roads, pavements and related infrastructure	53.0	(18.0)
Stores and spares held for capital projects	16.0	-
Advances for land acquisition	9.0	(9.0)
Others	235.3	(229.3)
	<u>2,638.3</u>	<u>(1,679.3)</u>

Note **31 December 2007** **30 June 2007**
(un-audited) **(audited)**
(Rupees in million)

7. Long term investments		
Investments in related parties	142.1	153.0
Other investments	88.5	83.8
	<u>230.6</u>	<u>236.8</u>
8. Trade debts		
Considered good - secured	4,490.9	3,861.2
Considered good - un-secured	14,271.9	12,199.8
	<u>18,762.8</u>	<u>16,061.0</u>
Considered doubtful	1,635.5	1,544.6
	<u>20,398.3</u>	<u>17,605.6</u>
Provision against impaired debts	(1,635.5)	(1,544.6)
	<u>18,762.8</u>	<u>16,061.0</u>
9 Other receivables - considered good		
Receivable from Government of Pakistan (GoP) under exchange risk coverage scheme	-	343.1
Receivable from Sui Northern Gas Pipelines Limited	1,789.3	1,783.9
Receivable from Jamshoro Joint Venture Limited (JJVL)	377.6	190.9
Receivable from Karachi Electric Supply Corporation Ltd. (KESC)	313.0	57.9
Sales tax receivable	2,625.6	4,123.7
Receivable from staff pension fund - non executives	109.0	83.5
Receivable from staff gratuity fund - executives	19.7	12.7
Receivable from staff provident fund - executives	1.5	-
Balance receivable for sale of gas condensates	113.8	92.6
Insurance claim receivable	3.5	5.5
Claim receivable	0.8	0.8
Miscellaneous receivables	390.6	404.7
	<u>5,744.4</u>	<u>7,099.3</u>
Provision against impaired receivables	(1.5)	(1.5)
	<u>5,742.9</u>	<u>7,097.8</u>

- 9.1** This represents pipeline rental receivable of Rs. 182.5 million (30 June 2007: Rs. 77.2 million) and Rs. 1,606.6 million (30 June 2007: 1,706.7 million) receivable under the uniform cost of gas agreement.
- 9.2** This includes Rs. 376.2 million (30 June 2007: Rs. 376.2 million) recoverable from GoP under deferred tariff adjustment.
- 10. Cash and bank balances**
This Includes cheques amounting to Rs. 720 million received in respect of Islamic Sukuk bonds which were cleared subsequent to the period end.

	Note	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)
11. Trade and other payables			
Creditors for:			
- gas		19,905.6	18,107.8
- supplies		105.7	170.0
		<u>20,011.3</u>	<u>18,277.8</u>
Amount received from customers/ Government of Pakistan for laying of mains, etc.		3,076.0	2,599.4
Gas development surcharge payable to GoP		562.5	2,775.0
Accrued liabilities		572.4	675.0
Provision for compensated absences - non executives		85.6	75.5
Payable to staff pension fund - executives		5.8	0.9
Payable to gratuity fund - non executives		26.6	30.8
Payable to provident fund		2.1	1.3
Workers' profit participation fund		52.0	0.3
Deposits / retention money		177.8	162.3
Bills payable		148.6	20.1
Advance for sharing right of way		18.1	18.1
Unclaimed dividend		32.1	32.7
Withholding tax payable		160.6	7.4
Unclaimed term finance certificate redemption profit		2.2	5.7
Inter State Gas System (Private) Limited (ISGSL)		25.7	9.3
Others		86.9	102.7
		<u>25,046.3</u>	<u>24,794.3</u>
12. Long term financing			
Secured			
Loans from banking companies and financial institutions			
- Local currency loans	12.1	5,244.2	9,472.5
Other Loans			
- Redeemable Capital	12.2	7,300.9	2,987.7
Unsecured			
- Consumer Financing		142.7	121.3
		<u>12,687.8</u>	<u>12,581.5</u>

			Note	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)
12.1	Local currency loans				
		Instalment Payable	Repayment Period		
	UBL - term loan-I	half-yearly	2005-2009	375.0	500.0
	SCB led syndicated loan	half-yearly	2006-2009	12.1.1 666.7	2,166.7
	NBP led syndicated loan - I	half-yearly	2007-2010	12.1.2 -	3,000.0
	NBP - term loan	quarterly	2008-2011	12.1.2 -	1,500.0
	MCB led syndicated loan	quarterly	2008-2011	12.1.2 -	1,500.0
	NBP led syndicated loan - II	quarterly	2009-2012	12.1.2 -	2,992.2
	CCB - term loan	quarterly	2007-2012	12.1.2 1,000.0	-
	UBL - term loan-II	quarterly	2007-2009	12.1.2 1,500.0	-
	MCB - term loan - I	quarterly	2007-2010	12.1.2 2,000.0	-
	MCB - term loan - II	quarterly	2007-2010	12.1.2 1,333.4	-
	Government of Sindh loan	annually	2007-2016	70.9	70.9
				6,946.0	11,729.8
	Less: Current portion shown under current liabilities				
	UBL - term loan			(250.0)	(250.0)
	SCB led syndicated loan			(333.3)	(1,000.0)
	NBP - term loan			-	(1,000.0)
	MCB - term loan - I			(666.7)	-
	MCB - term loan - II			(444.5)	-
	Government of Sindh loan			(7.3)	(7.3)
				(1,701.8)	(2,257.3)
				5,244.2	9,472.5

12.1.1 The finance facility carries mark-up at 0.9 percent above the average six months ask side KIBOR rate. In addition to scheduled repayment of Rs. 0.5 billion, an amount of Rs. 1 billion has been repaid during December 2007.

12.1.2 During the period, the management repaid local currency loans which were borrowed at higher rate ranging from 3 months KIBOR + 1.25% to 3 months KIBOR + 1.4% and borrowed local currency loans from commercial banks at lower rates. The new loans carry mark-up at 0.20 percent above the average three months ask side KIBOR and are secured by a first pari passu fixed charge created by way of hypothecation over movable fixed assets of the Company comprising of compressor stations, transmission pipelines, distribution pipelines and pipelines construction machinery and equipment.

			Note	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)
12.2	Redeemable capital				
		Instalment Payable	Repayment Period		
	Islamic Sukuk bonds under musharka agreement	quarterly	2009-2012	12.2.1 7,300.9	2,987.7

12.2.1 During the period, the Company borrowed additional amount of Rs. 4,320 million under an agreement to issue Islamic Sukuk Bonds with Bank Islamic Pakistan Limited. The finance facility carries mark-up at 0.20 percent above the average three months ask side KIBOR and is secured by a first pari passu fixed charge created by way of hypothecation over movable fixed assets of the Company comprising of compressor stations, transmission pipelines, distribution pipelines and pipelines construction machinery and equipment. Islamic Sukuk Bonds are yet to be issued.

	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)
13. Deferred Credit		
- Government contributions / grants		
Balance at 1 July	963.0	571.7
Addition during the period	105.5	443.2
	<u>1,068.5</u>	<u>1,014.9</u>
Transferred to profit and loss account	<u>(28.9)</u>	<u>(51.9)</u>
	<u>1,039.6</u>	<u>963.0</u>
- Contribution from customers		
Balance at 1 July	2,013.9	1,673.8
Additions during the period	124.8	519.9
	<u>2,138.7</u>	<u>2,193.7</u>
Transferred to profit and loss account	<u>(88.9)</u>	<u>(179.8)</u>
	<u>2,049.8</u>	<u>2,013.9</u>
	<u>3,089.4</u>	<u>2,976.9</u>

14. Contingencies and commitments

There have been no change in the status of contingencies and commitments as stated in the annual financial statements for the year ended 30 June 2007 except for the following:

	Note	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)	
14.1	Claims against the company not acknowledged as debt	14.4	<u>611.8</u>	<u>892.4</u>
14.2	Commitments for capital and other expenditure		<u>2,300.4</u>	<u>2,027.7</u>
14.3	Guarantees issued on behalf of the Company		<u>19.9</u>	<u>20.4</u>

14.4 The management is confident that ultimately these claims would not be payable.

14.5 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 2007: Rs. 0.5 million). Loans outstanding at the six months period ended was Rs. 18.1 million (30 June 2007: Rs. 19.6 million).

14.6 Oil and Gas Development Company Limited (OGDCL) has lodged a claim of Rs. 705.7 million (30 June 2007: Rs. 657.9 million) for supply of gas to the customers of Dera Bugti and Pirkoh areas from its Loti gas field from June 2001 to December 2007, 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 (MPNR), Government of Pakistan for the resolution of the matter. Provision has not been made in these condensed unconsolidated interim financial statements for the claim as the Company is confident that ultimately the resolution of claim will be in its favour.

14.7 Habibullah Costal Power Company (Private) Limited (HCPC) lodged a claim in previous on the Company amounting to Rs. 31.203 million in respect of alternative fuel cost consumed by HCPC due to short gas supplied by the Company as agreed in the gas sales agreement. In addition, WAPDA has claimed liquidated damages from 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 the Company and lodged a claim on the grounds that the Company failed to deliver the gas in accordance with the gas sales agreement. During the six months period the claim of HCPC and WAPDA have been

revised to Rs. 58.071 million and Rs. 95.576 million respectively. In addition HCPC has claimed interest of Rs. 23.211 million calculated up to 30 September 2007 on the claim lodged and also claimed an award of the costs of the arbitration along with the reasonable legal fees and other associated costs and expenses of HCPC's conduct of the Arbitration.

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 and the management is confident that this matter would be resolved in favour of the Company. Hence, no provision regarding the above said amount has been made in these condensed unconsolidated interim financial statements.

	Six months period ended		Quarter Ended	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	(un-audited) (Rupees in million)			
15. Other operating expenses				
Auditors' remuneration	1.1	0.6	0.8	0.3
Workers' profit participation fund	51.8	38.4	21.2	9.2
Sports expenses	9.9	8.2	4.4	8.0
Corporate social responsibility	4.2	2.9	2.9	1.4
Net loss on gas distribution Gwadar operation	5.6	4.5	2.7	2.0
Exchange loss on payment of gas purchases	40.3	51.3	40.3	33.9
Loss of vehicles	5.7	-	5.7	-
Provision against impaired stores and spares	-	33.0	-	30.4
	118.6	138.9	78.0	85.2
16. Other operating income				
- Income from financial assets				
Late payment surcharge	188.4	134.2	101.8	59.9
Return on term deposits	89.3	40.2	57.5	30.3
Return on staff loans	1.3	1.3	0.8	0.4
Interest income - others	518.2	210.7	315.1	123.0
	797.2	386.4	475.2	213.6
- Income from investment in debts, loans, advances and receivables from related party				
Income from gas transportation - SNGPL	242.9	194.3	140.9	98.0
Dividend income - SNGPL	6.3	5.7	6.3	5.7
	249.2	200.0	147.2	103.7
- Income from other than financial assets				
Meter rentals	260.2	248.1	131.8	125.1
Recognition of income against deferred credit	117.8	86.9	61.2	44.8
Sale of gas condensate	223.7	147.5	129.8	62.7
Gas transportation	63.6	87.8	19.8	34.0
Royalty income	1,027.3	424.2	528.9	256.3
Meter manufacturing profit - net	42.5	41.9	18.7	16.0
Recoveries from customers	3.5	13.9	2.1	7.3
Miscellaneous	18.2	50.1	6.8	32.8
	1,756.8	1,100.4	899.1	579.0
	2,803.2	1,686.8	1,521.5	896.3

	Six months period ended		Quarter Ended	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	(un-audited)			
	(Rupees in million)			
17. Finance cost				
Mark-up on				
Redeemable capital	157.8	22.3	157.5	22.1
Local currency financing	631.6	527.4	244.1	260.2
Short term financing	22.9	97.4	19.1	32.2
Customers' deposits	32.9	29.0	17.1	14.9
Workers' profit participation fund	-	0.7	-	0.7
Financial charges capitalized	(15.0)	(91.2)	(15.0)	(91.2)
Discount on gas bills	-	0.9	-	0.9
Others	0.4	0.8	0.3	0.8
Interest on delayed payment to gas suppliers	415.2	210.7	212.9	209.2
	<u>1,245.8</u>	<u>798.0</u>	<u>636.0</u>	<u>449.8</u>
18. Taxation				
Current	186.5	243.3	72.1	49.1
Deferred	348.1	0.7	-	0.7
Prior year - deferred	108.5	-	-	-
	<u>643.1</u>	<u>244.0</u>	<u>72.1</u>	<u>49.8</u>

19. Transactions with related parties

The related parties comprise of a subsidiary company, an associated company, joint venture company, 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 condensed unconsolidated interim financial statements are as follows:

	Six months period ended		Quarter Ended	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	(un-audited)			
	(Rupees in million)			
<i>Sui Northern Gas Pipeline Limited</i>				
- Pipeline rental income	242.9	194.3	140.9	97.9
- Sale of gas meters	325.1	314.4	151.0	188.2
- Gas Purchases	28.0	24.7	17.6	13.6
- Cost of gas levelisation	4,710.5	4,869.8	2,305.0	2,729.1
- Dividend Income	6.3	5.7	6.3	5.7
<i>Oil and Gas Development Company Limited</i>				
- Pipeline rental income	19.3	20.1	9.7	10.0
- Gas Purchases	5,436.2	7,866.5	2,066.5	4,074.7
<i>Pakistan Petroleum Limited</i>				
- Gas Purchases	3,662.2	3,438.9	1,866.1	1,753.0

	Note	Six months period ended		Quarter Ended	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
			(un-audited)		
			(Rupees in million)		
Pakistan Machine Tool Factory Limited*					
- Purchase of meter parts		9.2	26.3	-	17.3
- Gas sales		9.0	18.0	-	8.6
Karachi Electric Supply Corporation*					
- Gas sales		4,240.8	10,394.0	-	4,913.0
- Electricity bills		7.5	14.0	-	7.0
Pakistan State Oil Company Limited					
- Purchase of Oil and Lubricants		21.7	38.0	9.9	36.5
Inter State Gas System (Private) Limited					
- Reimbursement of expenses on the basis of joint venture agreement		49.0	49.7	31.3	31.2
Attock Refinery Limited					
- Sale of gas condensate		175.8	147.5	81.8	62.7
Mari Gas Company Limited					
- Gas purchases		1.1	-	1.1	-
State Life Insurance Company Limited					
- Rent of premises		2.0	-	1.9	-
National Insurance Company Limited					
- Insurance coverage		15.8	-	15.8	-
Staff retirement benefit plans					
- Contribution to provident fund	19.1	42.5	37.5	23.0	20.0
- Contribution to pension fund		(20.1)	(19.3)	-	(9.6)
- Contribution to gratuity fund		(11.1)	2.3	-	0.7
Remuneration to key management personnel (executive staff)					
	19.2	17.6	15.6	8.8	7.6

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

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

19.3 Amount (due to) / receivable from related parties

The details of amount (due to) / receivable from related parties are as follows:

	31 December 2007 (un-audited) (Rupees in million)	30 June 2007 (audited)
Sui Northern Gas Pipeline Limited		
- Pipeline rental income	<u>182.5</u>	<u>77.2</u>
- Sale of gas meters	<u>54.2</u>	<u>113.6</u>
- Gas purchases	<u>(10.0)</u>	<u>(8.1)</u>
- Cost of gas levelisation	<u>1,606.6</u>	<u>1,706.5</u>
Oil and Gas Development Company Limited		
- Pipeline rental income	<u>0.4</u>	<u>15.9</u>
- Gas purchases	<u>(6,197.6)</u>	<u>(5,804.4)</u>
Pakistan Petroleum Limited		
- Gas purchases	<u>(1,505.4)</u>	<u>(1,108.5)</u>
Pakistan State Oil Company Limited		
- Purchase of oil and lubricants	<u>1.0</u>	<u>-</u>
Inter State Gas System (Private) Limited		
- Reimbursement of expenses on the basis of joint venture agreement	<u>(25.7)</u>	<u>(9.3)</u>
Attock Refinery Limited		
- Sale of gas condensate	<u>113.8</u>	<u>92.6</u>
Mari Gas Company Limited		
- Gas purchases	<u>(2.1)</u>	<u>(0.8)</u>
National Insurance Company Limited		
- Insurance coverage	<u>15.8</u>	<u>-</u>
Habib Bank Limited - bank accounts		
	<u>188.6</u>	<u>130.4</u>
Staff retirement benefit plans		
- Receivable from staff pension fund - non executives	<u>109.0</u>	<u>83.5</u>
- Receivable from staff gratuity fund - executives	<u>19.7</u>	<u>12.7</u>
- Receivable from staff provident fund	<u>1.5</u>	<u>-</u>
- Payable to staff pension fund - non executives	<u>(5.8)</u>	<u>(0.9)</u>
- Payable to staff gratuity fund - executives	<u>(26.6)</u>	<u>(30.8)</u>
- Payable to staff provident fund	<u>(2.1)</u>	<u>(1.3)</u>

*After the demise of one director on 24 August 2007, these organisations are no more related parties.

20. General

20.1 These condensed interim financial statements were authorised for issue on 28th February 2008 by the Board of Directors of the Company.

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



Salim Abbas Jilani
Chairman Board of Directors



Azim Iqbal Siddiqui
Managing Director



Nessar Ahmed
Chairman Audit Committee