

Notes to the Financial Statements (un-audited)

for the nine month period ended 31 March 2007

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 the provinces of 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. Basis of preparation

These 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. These condensed financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the company for the year ended 30 June 2006.

The financial statements comprise of the balance sheet as at 31 March 2007 and the profit and loss account, statements of changes in equity and the cash flow statement for the nine months ended 31 March 2007 which are unaudited.

The comparative balance sheet presented in these financial statements as at 30 June 2006 has been extracted from the audited 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 financial statements for the nine month period ended 31 March 2006.

3. Accounting policies

The accounting policies adopted in the preparation of these financial statements are the same as those applied in preparation of the annual audited 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 effect 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.

	Note	31 March 2007	30 June 2006
(Rupees in million)			
5. Property, plant and equipment			
Operating assets	5.1	22,916.7	22,224.9
Capital work-in-progress		6,904.8	2,675.0
		<u>29,821.5</u>	<u>24,899.9</u>

5.1 Additions to and disposal of fixed assets

Details of additions to and disposal of fixed assets during the nine months ended 31 March 2007 are as follows:

	Cost of additions	Written down value of disposal
(Rupees in million)		
Owned		
Building on leasehold land	45.1	-
Gas transmission and distribution pipeline system	1,586.2	-
Plant, machinery and other equipment	434.2	-
Motor vehicles	154.5	0.019
	<u>2,220.0</u>	<u>0.019</u>

	Note	31 March 2007	30 June 2006
(Rupees in million)			
6. Long-term investments			
- Investments in related parties		141.8	195.1
- Other investments		70.3	62.1
		<u>212.1</u>	<u>257.2</u>
7. Other receivables - considered good			
Government of Pakistan (GoP) under exchange risk coverage scheme		345.2	1,170.9
Gas development surcharge receivable from GoP		-	710.3
Sui Northern Gas Pipelines Limited (SNGPL)	7.1	1,588.9	351.3
Jamshoro Joint Venture Limited (JJVL)		195.2	403.0
Sales tax		3,579.2	1,622.8
Miscellaneous	7.2	611.5	530.8
		<u>6,320.0</u>	<u>4,789.1</u>

7.1 This includes pipeline rental receivable of Rs. 85.8 million (June 2006: Rs. 100 million) and Rs. 1,503.1 million (June 2006: Rs. 250.6 million) receivable under the uniform cost of gas agreement.

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

8. Trade and other payables

Creditors for gas		18,639.5	12,589.3
Creditors for supplies		433.0	49.5
Gas development surcharge payable to the Government of Pakistan		1,140.4	-
Amount received from customers / GoP for laying of mains etc.		2,904.7	2,217.2
Accrued liabilities		653.3	974.5
Others		263.2	379.7
		<u>24,034.1</u>	<u>16,210.2</u>

9. Contingencies and Commitments

9.1 There has been no significant change in contingencies since the preceding half yearly financial statements except for the items noted below:

9.2 Claims against the company not acknowledged as debt	9.5	<u>880.9</u>	<u>747.1</u>
9.3 Aggregate commitments for capital and other expenditure		<u>2,272.7</u>	<u>3,354.2</u>
9.4 Guarantees issued on behalf of the company		<u>20.6</u>	<u>4.8</u>

9.5 The management is confident that ultimately these claims (note 9.2) would not be payable.

	3rd Quarter		nine month period	
	Jan - Mar 2007	Jan - Mar 2006	Jul - Mar 2007	Jul - Mar 2006
	(Rupees in million)			
10 Other operating expenses				
Auditors' remuneration	0.3	0.3	0.9	0.9
Workers' profit participation fund	(0.4)	9.3	38.0	51.4
Others	(30.1)	51.3	69.7	62.7
	<u>(30.2)</u>	<u>60.9</u>	<u>108.6</u>	<u>115.0</u>
11 Other operating income				
- Income from financial assets				
Late payment surcharge	(0.3)	108.7	133.9	232.0
Return on term deposits and staff loans	(7.8)	25.5	33.5	61.0
Interest income - others	-	-	340.8	-
	<u>(8.1)</u>	<u>134.2</u>	<u>508.2</u>	<u>293.0</u>
- Income from investment in debts, loans, advances and receivables from related party				
Income from gas transportation - SNGPL	103.7	93.2	298.1	279.6
Dividend income - SNGPL	-	-	5.7	5.8
	<u>103.7</u>	<u>93.2</u>	<u>303.8</u>	<u>285.4</u>
- Income from other than financial assets				
Meter rentals	122.6	118.5	370.7	351.2
Recognition of income against deferred credit	46.3	36.5	133.1	118.8
Sale of gas condensate	92.8	103.9	240.3	287.7
Gas transportation	33.9	44.2	133.3	142.3
Meter manufacturing profit - net	44.4	35.4	86.3	74.1
Recoveries from customers	5.2	3.2	19.1	40.2
Miscellaneous	569.9	83.0	902.6	266.3
	<u>1,010.7</u>	<u>652.1</u>	<u>2,697.4</u>	<u>1,859.0</u>
12 Taxation				
Current	8.5	86.8	252.6	591.3
Prior year	-	-	-	82.0
Deferred	-	4.7	-	(142.1)
	<u>8.5</u>	<u>91.5</u>	<u>252.6</u>	<u>531.2</u>

	31 March 2007	31 March 2006
	(Rupees in million)	
13. Cash Generated from operations		
Depreciation	1,499.2	1,553.9
Finance cost	1,113.3	692.9
Provision against doubtful debts	109.0	61.1
Provision for employee benefits	86.1	78.8
Recognition of income against deferred credit	(133.1)	(118.8)
Dividend income	(5.7)	(5.8)
Profit / interest on term deposits	(33.6)	(61.0)
Profit on disposal of fixed assets	(7.6)	(3.9)
Net cash generated from operations	<u>2,627.6</u>	<u>2,197.2</u>
14. Changes in working capital		
Stores and spares	(101.9)	(349.1)
Stock-in-trade	(24.2)	(23.9)
Customers' installation work-in-progress	(60.1)	(67.8)
Trade debts	(4,583.1)	(1,564.2)
Loans and advances	(42.4)	(39.2)
Trade deposits and short term prepayments	21.1	(71.1)
Other receivables - net	(1,530.8)	(1,765.8)
Trade and other payables - net	<u>7,893.1</u>	<u>8,474.8</u>
	<u>1,571.7</u>	<u>4,593.7</u>

15 Transactions with related parties

The related parties comprise of subsidiary companies, associated companies, joint venture companies, state controlled entities, staff retirement benefits 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 nine month period ended	
Note	31 March 2007	31 March 2006
	(Rupees in million)	
Sui Northern Gas Pipelines Limited		
- Pipeline rental income	<u>298.1</u>	<u>279.6</u>
- Dividend income	<u>5.7</u>	<u>5.7</u>
- Sale of gas meters	<u>489.3</u>	<u>428.8</u>
- Sale of pipes	<u>-</u>	<u>1.0</u>
- Gas purchases	<u>37.0</u>	<u>24.8</u>
- Uniform cost of gas	<u>7,264.5</u>	<u>6,003.2</u>
Oil and Gas Development Company Limited		
- Pipeline rental income	<u>30.2</u>	<u>30.7</u>
- Gas purchases	<u>11,824.2</u>	<u>10,168.6</u>
Pakistan Petroleum Limited		
- Gas purchases	<u>5,198.3</u>	<u>4,546.9</u>
Pakistan Machine Tool Factory Limited		
- Purchase of meter parts	<u>39.7</u>	<u>10.3</u>
- Gas sales	<u>27.5</u>	<u>24.9</u>
Pakistan State Oil Company Limited		
- Purchase of oil and lubricants	<u>52.1</u>	<u>22.8</u>
Inter State Gas Systems (Private) Limited		
- Reimbursement of expenses on the basis of joint venture agreement	<u>70.8</u>	<u>10.6</u>
Staff retirement benefit plans		
- Contribution to provident fund	14.1 <u>56.0</u>	<u>52.6</u>
- Contribution to pension fund	<u>(28.9)</u>	<u>94.8</u>
- Contribution to gratuity fund	<u>4.4</u>	<u>41.0</u>
Remuneration of key management personnel	14.2 <u>23.7</u>	<u>21.4</u>

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

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

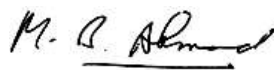
16. General

16.1 These interim financial statements were authorised for issue on 30th April 2007 by the Board of Directors of the company.

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

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


Aitzaz Shahbaz
Chairman


Munawar B. Ahmad, P.E.
Managing Director

Karachi
30 April 2007