

## Notes to the consolidated Financial Statements (un-audited)

for the quarter ended 30 September 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.

Sui Southern Gas Provident Fund trust (Pvt.) 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 (Pvt.) 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 (Pvt.) Limited is 51%.

#### 1.1 Basis of consolidation

The group consists of:

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

The consolidated 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 consolidated 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 consolidated financial statements comprise of the consolidated balance sheet as at 30 September 2006 and the consolidated profit and loss account, consolidated statements of changes in equity and the consolidated cash flow statement for the 1st quarter ended 30 September 2006 which are unaudited.

The comparative balance sheet presented in these consolidated 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 1st quarter ended 30 September 2005.

**3 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 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 2007.

**5 Property, plant and equipment**

Note	<u>30-Sep-07</u>	<u>30-Jun-07</u>
	(Rupees in million)	
Operating assets	27,003.6	27,020.4
Capital work-in-progress	<u>5,060.2</u>	<u>4,313.4</u>
	<u>32,063.8</u>	<u>31,333.8</u>

**5.1 Additions to and disposal of fixed assets**

Details of additions to and disposal of fixed assets during the quarter ended 30 September 2007 are as follows:

	Cost of additions	Written down value of disposal
	(Rupees in million)	
<b>Owned</b>		
Gas transmission and distribution pipeline system	445.5	-
Plant, machinery and other equipment	72.8	-
Motor vehicles	<u>12.2</u>	<u>0.9</u>
	<u>530.5</u>	<u>0.9</u>
	<u>30-Sep-07</u>	<u>30-Jun-07</u>
	(Rupees in million)	

**6 Long-term investments**

- Investments in related parties	130.3	147.9
- Other investments	<u>88.5</u>	<u>83.8</u>
	<u>218.8</u>	<u>231.7</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	<u>5.1</u>	<u>5.1</u>
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7.1 This represents a 51% (June 2006: 51%) interest of SSGCL share in Inter State Gas Systems (Private) Limited (the jointly controlled entity).

	<u>30-Sep-07</u>	<u>30-Jun-07</u>
	(Rupees in million)	
<b>8 Other receivables</b> - considered good		
Government of Pakistan (GoP) under exchange risk coverage scheme	343.1	343.1
Sui Northern Gas Pipelines Limited (SNGPL) 8.1	1,766.7	1,783.9
Jamshoro Joint Venture Limited (JJVL)	298.9	190.9
Sales tax	3,053.1	4,123.7
Miscellaneous 8.2	787.2	598.3
	<u>6,249.0</u>	<u>7,039.9</u>

8.1 This includes pipeline rental receivable of Rs. 159.1 million (June 2007: Rs. 77.2 million) and Rs. 1,607.5 million (June 2007: Rs. 1,706.5 million) receivable under the uniform cost of gas agreement.

8.2 This includes Rs. 376.2 million (30 June 2007: Rs. 376.2 million) recoverable from GoP under deferred tariff adjustment and Rs. 83.2 million (June 2007: Rs. 83.5 million) receivable from non executive staff pension fund.

<b>9 Trade and other payables</b>		
Creditors for gas	17,727.9	18,277.9
Creditors for supplies	5.6	20.1
Gas development surcharge payable to the Government of Pakistan	3,793.0	2,775.0
Amount received from customers / GOP for laying of mains etc.	3,054.9	2,599.4
Accrued liabilities	577.1	675.0
Others	668.2	446.9
	<u>25,826.7</u>	<u>24,794.3</u>

#### 10 Contingencies and commitments

10.1 There has been no significant change in contingencies since the preceding annual published financial statements except for the matter stated as under;

10.2 Claims against the company not acknowledged as debt 10.5	<u>889.5</u>	<u>892.4</u>
10.3 Aggregate commitments for capital and other expenditure	<u>3,739.1</u>	<u>2,027.7</u>
10.4 Guarantees issued on behalf of the company	<u>17.5</u>	<u>20.4</u>

10.5 The management is confident that ultimately these claims (note 10.2) would not be payable.

	<u>Jul - Sep. 2007</u>	<u>Jul - Sep. 2006</u>
	Rupees in million	
<b>11 Other operating expenses</b>		
Auditors' remuneration	0.3	0.3
Workers' Profit Participation Fund	30.6	29.3
Exchange loss on foreign transactions	-	17.4
Others	9.7	6.7
	<u>40.6</u>	<u>53.7</u>

	Jul - Sep. 2007	Jul - Sep. 2006
	Rupees in million	
<b>12 Other operating income</b>		
<b>- Income from financial assets</b>		
Late payment surcharge	86.6	74.3
Return on term deposits and staff loans	32.4	10.8
Interest income - others	203.0	87.7
	<u>322.0</u>	<u>172.8</u>
<b>- Income from investment in debts, loans, advances and receivables from related party</b>		
Income from gas transportation - SNGPL	102.0	96.4
<b>- Income from other than financial assets</b>		
Meter rentals	128.4	123.0
Recognition of income against deferred credit	56.6	42.1
Sale of gas condensate	93.9	84.8
Gas transportation	43.8	42.4
Royalty income	498.4	167.9
Meter manufacturing profit - net	23.8	25.9
Recoveries from customers	1.4	6.7
Miscellaneous	11.4	28.5
	<u>1,281.7</u>	<u>790.5</u>
<b>13 Taxation</b>		
Current	-	194.2
Minimum tax on turnover base	91.2	-
Deferred	203.2	-
	<u>294.4</u>	<u>194.2</u>
<b>14 Cash generated from operations</b>		
Depreciation	530.6	478.1
Amortization of intangibles	12.0	8.9
Finance cost	609.7	348.2
Provision against doubtful debts	41.5	79.1
Provision for employee benefits	28.7	24.3
Recognition of income against deferred credit	(56.6)	(42.1)
Profit / interest on term deposits	(235.4)	(98.5)
Profit on disposal of fixed assets	0.3	(4.0)
Net cash generated from operations	<u>930.8</u>	<u>794.0</u>

	Jul - Sep. 2007	Jul - Sep. 2006
	Rupees in million	
<b>15 Changes in working capital</b>		
Stores and spares	(45.3)	(164.0)
Stock-in-trade	(32.8)	(28.9)
Customers' installation work-in-progress	(20.7)	(81.5)
Trade debts	(1,624.3)	(3,204.4)
Loans and advances	(65.4)	(66.3)
Trade deposits and short term prepayments	(68.3)	(17.8)
Other receivables - net	790.9	(795.6)
Trade and other payables - net	1,032.6	4,383.6
	<u>(33.3)</u>	<u>25.1</u>

**16 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 associate). 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:

	Note	30 Sep. 2007	30 Sep. 2006
		(Rupees in million)	
<b>Sui Northern Gas Pipelines Limited</b>			
- Pipeline rental income		<u>102.0</u>	<u>96.4</u>
- Sale of gas meters		<u>174.1</u>	<u>126.2</u>
- Gas purchases		<u>10.4</u>	<u>11.1</u>
- Uniform cost of gas		<u>2,405.5</u>	<u>2,140.7</u>
<b>Oil and Gas Development Company Limited</b>			
- Pipeline rental income		<u>9.6</u>	<u>10.1</u>
- Gas purchases		<u>3,369.6</u>	<u>3,791.8</u>
<b>Pakistan Petroleum Limited</b>			
- Gas purchases		<u>1,796.1</u>	<u>1,685.9</u>
<b>Pakistan Machine Tool Factory Limited *</b>			
- Purchase of meter parts		<u>9.2</u>	<u>9.0</u>
- Gas sales		<u>9.0</u>	<u>9.4</u>
<b>Karachi Electric Supply Company Limited *</b>			
- Gas sales		<u>2,772.0</u>	<u>5,481.0</u>
- Electricity bills		<u>5.1</u>	<u>7.0</u>
<b>Pakistan State Oil Company Limited</b>			
- Purchase of oil and lubricants		<u>11.8</u>	<u>1.5</u>
<b>Attock Refinery Limited</b>			
- Sale of gas condensate		<u>93.9</u>	<u>84.8</u>
<b>Inter State Gas Systems (Private) Limited</b>			
- Reimbursement of expenses on the basis of joint venture agreement		<u>17.7</u>	<u>18.5</u>

	Note	<u>30 Sep. 2007</u>	<u>30 Sep. 2006</u>
		(Rupees in million)	
<b>Staff retirement benefit plans</b>			
- Contribution to provident fund	16.1	<u>19.5</u>	<u>17.5</u>
- Contribution to pension fund		<u>-</u>	<u>(9.7)</u>
- Contribution to gratuity fund		<u>-</u>	<u>1.6</u>
Remuneration of key management personnel	16.2	<u>8.8</u>	<u>8.0</u>

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

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 interim financial statements were authorized for issue on 31 October 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



**Azim Iqbal Siddiqui**  
Chief Executive Officer

Karachi  
31 October 2007