

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

for the nine month period ended 31 March 2008

## 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.

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 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. Statement of compliance

These condensed consolidated interim financial statements for nine month period ended 31 March 2008 are un-audited and have been prepared in accordance with the requirements of the International Accounting Standard 34 “Interim Financial Reporting” as applicable in Pakistan. These condensed consolidated 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 consolidated 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 consolidated 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 consolidated 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**

Operating assets  
Capital work-in-progress

<b>31 March 2008 (un-audited)</b>	<b>30 June 2007 (audited)</b>
(Rupees in million)	
<b>28,029.1</b>	27,020.4
<b>5,841.9</b>	4,313.4
<b><u>33,871.0</u></b>	<b><u>31,333.8</u></b>

Details of addition to and disposal of operating fixed assets during the nine month period ended 31 March 2008 are as follows:

**Operating assets**

**Owned**

Leasehold land  
Buildings on leasehold land  
Gas transmission & distribution pipeline system  
Plant, machinery and other equipment  
Motor vehicles

<b>Cost of additions / transfers</b>	<b>Written down value of (disposals / transfers)</b>
(Rupees in million)	
<b>11.2</b>	-
<b>115.5</b>	-
<b>2,266.1</b>	-
<b>222.7</b>	(0.2)
<b>107.7</b>	(8.7)
<b><u>2,723.2</u></b>	<b><u>(8.9)</u></b>
<b>Capital work-in-progress</b>	
<b>Projects:</b>	
- Gas distribution system	3,103.5 (2,081.8)
- Cost of buildings under construction	65.8 (115.5)
- Gas infrastructure rehabilitation and expansion project	804.0 (252.6)
- Roads, pavements and related infrastructure	18.7 18.1
<b><u>3,992.0</u></b>	<b><u>(2,431.8)</u></b>
Stores and spares held for capital projects	(117.9) -
Others	314.2 (291.4)
<b><u>4,188.3</u></b>	<b><u>(2,723.2)</u></b>

**7. Long term investments**

Investments in related parties  
Other investments

<b>31 March 2008 (un-audited)</b>	<b>30 June 2007 (audited)</b>
<b>142.1</b>	147.9
<b>84.2</b>	83.8
<b><u>226.3</u></b>	<b><u>231.7</u></b>

**8. Share of investment in jointly controlled entity**

Inter State Gas Systems (Private) Limited  
510,000 ordinary shares of Rs. 10 each

Note

8.1

<b>31 March 2008 (un-audited)</b>	<b>30 June 2007 (audited)</b>
<b>5.1</b>	5.1

**8.1** This represents a 51% (June 2007: 51%) interest of SSGCL share in Inter State Gas Systems (Private) Limited (the jointly controlled entity).

	Note	31 March 2008 (un-audited) (Rupees in million)	30 June 2007 (audited)
<b>9. Trade debts</b>			
Considered good - secured		5,009.3	3,861.2
Considered good - un-secured		13,512.3	12,199.8
		<u>18,521.6</u>	<u>16,061.0</u>
Considered doubtful		1,693.5	1,544.6
		<u>20,215.1</u>	<u>17,605.6</u>
Provision for impaired debts		(1,693.5)	(1,544.6)
		<u>18,521.6</u>	<u>16,061.0</u>
<b>10. Other receivables - considered good</b>			
Receivable from Government of Pakistan (GoP) under exchange risk coverage scheme		-	343.1
Receivable from Sui Northern Gas Pipelines Ltd. (SNGPL)	10.1	2,687.7	1,783.9
Receivable from Jamshoro Joint Venture Limited (JJVL)		410.4	190.9
Receivable from Karachi Electric Supply Company Ltd. (KESC)		242.4	57.9
Sales tax receivable		3,109.3	4,123.7
Receivable from staff pension fund - non executives		123.0	83.5
Receivable from staff gratuity fund - executives		22.4	12.7
Receivable from staff provident fund - executives		1.3	-
Balance receivable for sale of gas condensate		160.8	92.6
Insurance claim receivable		3.2	5.5
Claim receivable		0.8	0.8
Miscellaneous receivables	10.2	406.5	404.7
		<u>7,167.8</u>	<u>7,099.3</u>
Provision against impaired receivables		(1.5)	(1.5)
		<u>7,166.3</u>	<u>7,097.8</u>
<b>10.1</b>	This includes pipeline rental receivable of Rs. 287.1 million (June 2007: Rs. 77.2 million) and Rs. 2,400.5 million (June 2007: Rs. 1,706.5 million) receivable under the uniform cost of gas agreement.		
<b>10.2</b>	This includes Rs. 376.2 million (30 June 2007: Rs. 376.2 million) recoverable from GoP under deferred tariff adjustment.		
<b>11. Trade and other payables</b>			
Creditors for:		22,936.2	18,107.8
- gas		120.2	170.0
- supplies		23,056.4	18,277.8
Amount received from customers/ Government of Pakistan for laying of mains, etc.		3,251.4	2,599.4
Gas development surcharge payable to the Government of Pakistan		134.7	2,775.0
Accrued liabilities		500.7	675.0
Provision for compensated absences - non executives		90.6	75.5
Payable to pension fund - executives		-	0.9
Payable to gratuity fund - non executives		24.3	30.8
Payable to provident fund - non executives		2.1	1.3
Workers' profit participation fund		49.4	0.3
Deposits / retention money		172.4	162.3
Bills payable		3.6	20.1
Advance for sharing right of way		18.1	18.1
Unclaimed dividend		38.4	32.7
Withholding tax payable		37.4	7.4
Unclaimed term finance certificate redemption profit		2.2	5.7
Inter State Gas System (Private) Limited (ISGSL)		14.8	9.3
Others		84.9	102.7
		<u>27,481.4</u>	<u>24,794.3</u>

			Note	31 March 2008 (un-audited) (Rupees in million)	30 June 2007 (audited)
<b>12. Long term financing</b>					
<b>Secured</b>					
- Loans from banking companies and financial institutions					
- Local currency loans			12.1	7,022.0	9,472.5
- Other Loans					
- Redeemable Capital			12.2	7,681.9	2,987.7
<b>Unsecured</b>					
- Consumer Financing				167.8	121.3
				<b>14,871.7</b>	<b>12,581.5</b>
<b>12.1 Local currency loans</b>					
	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	-	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	-
MCB - term loan - III	quarterly	2007-2010	12.1.2	1,000.0	-
Government of Sindh Loan	annually	2007-2016		70.9	70.9
				<b>7,279.3</b>	11,729.8
Less: Current portion shown under current liabilities					
UBL - term loan				(250.0)	(250.0)
SCB led syndicated loan				-	(1,000.0)
NBP - term loan				-	(1,000.0)
Government of Sindh Loan				(7.3)	(7.3)
				<b>(257.3)</b>	<b>(2,257.3)</b>
				<b>7,022.0</b>	<b>9,472.5</b>

**12.1.1** The finance facility carries mark-up at 0.9 percent above the average six month ask side KIBOR rate. The facility has been repaid during December 2007 and March 2008.

**12.1.2** During the period, the management repaid local currency loans which were borrowed at higher rate ranging between 1.25% to 1.40% over 3 month KIBOR, 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 month 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.

**12.2 Redeemable capital**

	Instalment Payable	Repayment Period			
Islamic Sukuk Bonds under musharka agreement	quarterly	2009-2013	12.2.1	7,681.9	2,987.7

**12.2.1** During the period, the Company borrowed additional amount of Rs. 4,700 million under an agreement to issue Islamic Sukuk Bonds with Bank Islami 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.

	Note	31 March 2008 (un-audited) (Rupees in million)	30 June 2007 (audited)	
<b>13. Deferred credit</b>				
<b>Government contributions / grants</b>				
Balance at 1 July		963.0	571.7	
Additions during the period		112.7	443.2	
		<b>1,075.7</b>	1,014.9	
Transferred to profit and loss account		(43.6)	(51.9)	
		<b>1,032.1</b>	963.0	
<b>Contribution from customers</b>				
Balance at 1 July		2,013.9	1,673.9	
Additions during the period		200.3	519.9	
		<b>2,214.2</b>	2,193.8	
Transferred to profit and loss account		(134.7)	(179.9)	
		<b>2,079.5</b>	2,013.9	
		<b>3,111.6</b>	2,976.9	
<b>14. Contingencies and commitments</b>				
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:				
14.1	Claims against the company not acknowledged as debt	14.4	611.8	892.4
14.2	Aggregate commitments for capital and other expenditure		2,766.1	2,027.7
14.3	Guarantees issued on behalf of the Company		19.9	20.4
14.4	The management is confident that ultimately these claims (note 14.1) 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 nine month period ended was Rs. 17.9 million (30 June 2007: Rs. 19.6 million).			
14.6	Oil and Gas Development Company Limited (OGDCL) has lodged a claim of Rs. 741.465 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 consolidated 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 years 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 nine month 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 on conduct of 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 the matter would be resolved in favour of the Company. Hence, no provision regarding the above said amount has been made in these condensed consolidated interim financial statements.

	Nine month period ended		Quarter ended	
	31 March 2008	31 March 2007	31 March 2008	31 March 2007
	(un-audited)			
	(Rupees in million)			
<b>15. Other operating expenses</b>				
Auditors' remuneration	1.5	0.9	0.4	0.3
Workers' Profit Participation Fund	49.4	38.0	(2.4)	(0.4)
Others	227.1	69.7	161.6	(30.1)
	<u>278.0</u>	<u>108.6</u>	<u>159.6</u>	<u>(30.2)</u>
<b>16. Other operating income</b>				
<b>- Income from financial assets</b>				
Late payment surcharge	328.9	133.9	140.6	(0.3)
Return on term deposits and staff loans	132.0	33.5	41.3	(7.8)
Interest income - others	743.6	340.8	228.7	130.1
	<u>1,204.5</u>	<u>508.2</u>	<u>410.6</u>	<u>122.0</u>
<b>- Income from investment in debts, loans, advances and receivables from related party</b>				
Income from gas transportation - SNGPL	347.5	298.1	104.6	103.7
Dividend income - SNGPL	6.3	5.7	-	-
	<u>353.8</u>	<u>303.8</u>	<u>104.6</u>	<u>103.7</u>
<b>- Income from other than financial assets</b>				
Meter rentals	350.1	370.7	89.9	122.6
Recognition of income against deferred credit	178.3	133.1	60.5	46.3
Sale of gas condensate	433.2	240.3	209.5	92.8
Gas transportation	105.8	133.3	42.2	33.9
Royalty income	1,598.6	835.9	571.3	411.6
Meter manufacturing profit - net	52.9	86.3	10.4	44.4
Recoveries from customers	4.3	19.1	0.8	5.2
Miscellaneous	21.3	66.7	(0.2)	28.2
	<u>2,744.5</u>	<u>1,885.4</u>	<u>984.4</u>	<u>785.0</u>
	<u>4,302.8</u>	<u>2,697.4</u>	<u>1,499.6</u>	<u>1,010.7</u>

Nine month period ended		Quarter ended	
31 March 2008	31 March 2007	31 March 2008	31 March 2007

(un-audited)  
(Rupees in million)

## 17. Finance Cost

### Mark-up on

Redeemable capital	358.9	28.2	201.1	5.9
Local currency financing	802.5	796.2	170.9	268.8
Short term financing	47.0	146.5	24.1	49.1
Consumers' deposits	49.9	43.7	17.0	14.7
Workers' profit participation fund	-	0.7	-	-
Financial charges capitalized	(15.0)	(91.2)	-	-
Discount on gas bills	-	1.2	-	0.3
Interest on delayed payment to gas suppliers	662.3	187.0	247.1	(23.7)
Others	1.2	1.0	0.8	0.2
	<u>1,906.8</u>	<u>1,113.3</u>	<u>661.0</u>	<u>315.3</u>

## 18. Taxation

Current	290.6	252.6	104.1	8.5
Deferred	328.3	-	(19.9)	-
Prior year - deferred	-	-	(108.5)	-
	<u>618.9</u>	<u>252.6</u>	<u>(24.3)</u>	<u>8.5</u>

Nine month period ended  
31 March 2008 31 March 2007  
(un-audited)  
(Rupees in million)

## 19. Cash generated from operations

Depreciation	1,658.2	1,499.2
Finance cost	1,906.8	1,113.3
Provision against impaired debts	148.8	109.0
Provision for employee benefits	83.3	86.1
Recognition of income against deferred credit	(178.3)	(133.1)
Dividend income	(6.3)	(5.7)
Profit / interest on term deposits	(132.0)	(33.6)
Profit on disposal of fixed assets	(0.2)	(7.6)
Net cash generated from operations	<u>3,480.3</u>	<u>2,627.6</u>

## 20. Changes in working capital

Stores and spares	(5.8)	(101.9)
Stock-in-trade	(96.2)	(24.2)
Customers' installation work-in-progress	(75.4)	(60.1)
Trade debts	(2,609.3)	(4,583.1)
Loans and advances	(84.3)	(42.4)
Trade deposits and short term prepayments	(53.5)	21.1
Other receivables - net	(68.5)	(1,530.8)
Trade and other payables - net	2,759.4	7,893.1
	<u>(233.6)</u>	<u>1,571.7</u>

## 21. 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:

	Note	Nine month period ended		Quarter ended	
		31 March 2008	31 March 2007	31 March 2008	31 March 2007
			(un-audited)		
			(Rupees in million)		
<b>Sui Northern Gas Pipelines Limited</b>					
- Pipeline rental income		347.5	298.1	104.6	103.8
- Sale of gas meters		507.3	489.3	182.2	174.9
- Gas purchases		54.9	37.0	26.9	12.3
- Cost of gas levelisation		(7,971.3)	(7,264.5)	(3,260.9)	(2,394.6)
- Dividend income		6.3	5.7	-	-
<b>Oil and Gas Development Company Limited</b>					
- Pipeline rental income		19.3	30.2	-	10.1
- Gas purchases		5,436.2	11,824.2	-	3,957.7
<b>Pakistan Petroleum Limited</b>					
- Gas purchases		5,472.3	5,198.3	1,810.1	1,759.4
<b>Pakistan Machine Tool Factory Limited*</b>					
- Purchase of meter parts		9.2	39.7	-	13.4
- Gas sales		9.0	27.5	-	9.5
<b>Karachi Electric Supply Company Limited*</b>					
- Gas sales		4,240.8	16,228.7	-	4,278.8
- Electricity bills		7.5	23.2	-	7.6
<b>Pakistan State Oil Company Limited</b>					
- Purchase of oil and lubricants		34.7	52.1	12.8	14.1
<b>Inter State Gas Systems (Private) Limited</b>					
- Reimbursement of expenses on the basis of joint venture agreement		75.9	70.8	26.9	21.1
<b>Attock Refinery Limited</b>					
- Sale of gas condensate		175.8	240.3	-	92.8
<b>Mari Gas Company Limited</b>					
- Gas purchases		4.6	7.7	3.5	3.1
<b>State Life Insurance Corporation Limited</b>					
- Rent of premises		2.1	2.0	0.1	0.1
<b>National Insurance Company Limited</b>					
- Insurance coverage		24.3	41.7	8.5	36.8
<b>Staff retirement benefit plans</b>					
- Contribution to provident fund	21.1	63.8	56.0	21.3	18.5
- Contribution to pension fund		(31.5)	(28.9)	(11.4)	(9.6)
- Contribution to gratuity fund		(15.7)	4.4	(4.6)	(2.1)
<b>Remuneration to key management personnel (executive staff)</b>					
	21.2	24.0	23.7	6.3	8.0

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

- 21.1 Contribution to the defined contribution and benefit plans are in accordance with the terms of the entitlement of employees and actuarial advice.
- 21.2 Remuneration and loans to the executives are as per the terms of employment.
- 21.3 **Amount (due to) / receivable from related parties**

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

	<b>31 March 2008 (un-audited)</b> (Rupees in million)	30 June 2007 (audited)
<b>Sui Northern Gas Pipelines Limited</b>		
- Pipeline rental income	<u>287.1</u>	<u>77.2</u>
- Sale of gas meters	<u>56.8</u>	<u>113.6</u>
- Gas purchases	<u>(12.5)</u>	<u>(8.1)</u>
- Cost of gas levelisation	<u>2,400.5</u>	<u>1,706.5</u>
<b>Oil and Gas Development Company Limited</b>		
- Gas purchases	<u>(4,951.7)</u>	<u>(5,804.4)</u>
<b>Pakistan Petroleum Limited</b>		
- Gas purchases	<u>(2,383.9)</u>	<u>(1,108.5)</u>
<b>Inter State Gas System (Private) Limited</b>		
- Reimbursement of expenses on the basis of joint venture agreement	<u>(14.8)</u>	<u>(9.3)</u>
<b>Attock Refinery Limited</b>		
- Sale of gas condensate	<u>160.8</u>	<u>92.6</u>
<b>Mari Gas Company Limited</b>		
- Gas purchases	<u>(2.5)</u>	<u>(0.8)</u>
<b>Staff retirement benefit plans</b>		
- Receivable from staff pension fund - non executives	<u>123.0</u>	<u>83.5</u>
- Receivable from staff gratuity fund - executives	<u>22.4</u>	<u>12.7</u>
- Receivable from staff provident fund	<u>1.3</u>	<u>-</u>
- Payable to staff pension fund - non executives	<u>-</u>	<u>(0.9)</u>
- Payable to staff gratuity fund - executives	<u>(24.3)</u>	<u>(30.8)</u>
- Payable to staff provident fund	<u>(2.1)</u>	<u>(1.3)</u>

22. **General**

- 22.1 These condensed interim financial statements were authorised for issue on 30 April 2008 by the Board of Directors of the Company.
- 22.2 Figures have been rounded off to the nearest tenth million rupees.



**Salim Abbas Jilani**  
Chairman Board of Directors



**Azim Iqbal Siddiqui**  
Managing Director