

# REPORT OF THE DIRECTORS

On behalf of the Board of Directors of Sui Southern Gas Company Limited, we are pleased to present the un audited results for the third quarter and nine months ended 31 March 2008.

## REVIEW OF OPERATIONS

Gas sales volume in the nine months to 31 March 2008 increased to 277 bcf versus 269 bcf in the corresponding period of FY 2006-07. However, by value it declined by 4% to Rs. 55.1 billion as the average sales price decreased by 5% to Rs.208.28 per mmbtu as compared to Rs.219.50 of last year. The increase or decrease in sales price has no impact on Company profits due to its unique tariff regime.

In the nine months period, your Company extended 275 new industrial 1,263 commercial and 70,427 domestic connections. Gas Distribution System was extended by 1,593 km while another 354 km of distribution lines were laid under rehabilitation projects to curtail line losses. More resources have also been diverted to control the menace of gas theft, leakages in pipelines and to improve recoveries, these actions should favorably impact the bottom line in the coming months and years.

The meter manufacturing plant produced 403,050 meters versus 381,450 in the corresponding period, an increase of 5.7%. Sales to SNGPL increased by 3% to 265,000 meters. The profit of the plant however decreased to Rs.53 million as compared to Rs.86 million of corresponding period due to increase in material cost. Arrangements are in hand to introduce a new model of domestic gas meter as a substitute for G.4 meter.

There has been a sizeable increase in other income, especially due to royalty receipts from JJVL. The rising world LPG prices accrued higher royalty to the Company.

Financial charges increased in proportion to borrowings and gas bills of producers were withheld due to KESC and WAPDA defaults. However, the Management was able to execute an agreement with KESC for payment of their over due amount, pursuant to the execution of this agreement overdue amount from KESC has been reduced from Rs.7.599 billion by Rs.3.393 billion to Rs.4.206 billion.

All in all the Company posted a pre tax profit of Rs.938 million as compared to Rs.722 million for the corresponding period, an increase of Rs.216 million (30%). The benefit of a higher regulated return on the back of an increase in asset base and increase in other income was offset by higher tax impact. Due mainly to heavy capitalization, the Company has to provide for a higher deferred tax liability and also suffers a levy of minimum tax (turnover tax @ 0.5%). The minimum tax is adjustable in future five years against tax profit, if any, but due to upcoming projects and

other capital expenditure, it does not seem adjustable and has been charged out in the same year. The Company is evaluating different options to mitigate the higher tax impact including following up with FBR to seek exemption from minimum tax.

UFG seriously affects the profitability of the Company and the Management is making serious efforts to control UFG so as to minimize its effect on the profitability of the Company.

The net profit after tax for the nine months period therefore stands at Rs.319 million compared with Rs.469 million for the same period last year (EPS Rs.0.48 vs Rs.0.70).

Actual EPS on March 2007 was Rs.0.29; this is because the minimum tax was not provided. Had the accounts for March 2008 prepared without having impact of minimum tax, the EPS would have been Rs.0.93.

## DEVELOPMENT PROJECTS

The capital expenditure incurred is Rs.4.2 billion in the nine months to 31 March, 2008 as compared to Rs.6.3 billion for the previous corresponding period. However, transfer to completed assets was higher at Rs.2.7 billion versus Rs.2.2 billion last year. The capex is proceeding as per plan and higher level of capitalization of upto Rs.6 billion is likely to be achieved by the year end which should also favorably impact PAT. Keeping up with its past traditions, several technological initiatives have been initiated by your Company to further improve customer service and reduce gas losses, which shall be dwelt upon in detail in the Annual Report. The Company has added to its customer list the DHA desalination and power generation plant and sales agreements with other major prospective customers are in hand.



**Salim Abbas Jilani**  
Chairman Board of Directors



**Azim Iqbal Siddiqui**  
Managing Director

Karachi  
30 April 2008