REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

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 2009.

REVIEW OF OPERATIONS

Gas sales volume in the nine months to 31 March 2009 increased to 287.5 bcf versus 277.1 bcf in the corresponding period of FY 2007-08. By value it increased by 41% to Rs.77.6 billion. The average unit sales price increased by 37% to Rs.285.09 per mmbtu as compared to Rs.208.28 of last year. The increase or decrease in sales price has no impact on Company profits due to its unique tariff regime.

Gas is being purchased from 14 different producing fields. The average well-head purchase price increased by 43% and stood at Rs. 247.01 per mmbtu.

In the nine months period, your Company extended 210 new industrial connections, 1,386 commercial and 82,673 domestic. Gas Distribution System was extended by 1,755 km while another 353 km of distribution lines were laid under rehabilitation projects to curtail line losses. With increased emphasis on domestic connections, especially in new towns and villages, the Company's resources are overstretched leading to additional UFG and recoveries are also posing a serious challenge.

In the nine months period, the meter manufacturing plant produced 499,710 meters versus 403,050, an increase of 24%. Sales to SNGPL increased by 35% to 358,400 meters. The profit of the plant decreased to Rs.47 million as compared to Rs.53 million of corresponding period due to rising cost and decreased margins.

Operating cost (excluding LNG, ISGSL & IDF cost) per MCF was Rs. 14.3 versus Rs. 11.8 of corresponding period last year. However, as percentage to revenue the operating cost reduced to 5% compared to 5.9% in the corresponding period.

Royalty income from JJVL for the nine months stood at Rs.1,360 million as compared to Rs.1,599 million of the corresponding period of last year. Financial charges receivable and payable both registered increase mainly due to circular debt phenomenon in the energy sector which has impacted the Company severely. The Government is being continuously urged to facilitate and provide relief to the Company and the Company was a beneficiary as overdues were received from WAPDA which were used to pay off OGDC. However, as on 22 April, 2009 dues of over Rs. 29 billion are outstanding against KESC, WAPDA, SNGPL, sales tax refunds and gas development surcharge refunds.

All in all the Company posted a pre-tax profit of Rs.603 million as compared to Rs.938 million for the corresponding period, a decrease of Rs.335 million (36%). 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 UFG. The earth quake in Balochistan and severe drop in temperature in the region resulted in increase in theft / leakage of gas in the 2nd & 3rd quarters. UFG was 8.26% compared with 7.93% for the corresponding period and OGRA effective target of 5.15%. An adjustment of Rs. 1,362 million has been made in the profit & loss account on the basis of full year 7% estimated UFG as referred to in Note 4.1 to the accounts. Meanwhile the issue has been raised with OGRA to provide urgent relief in the UFG benchmark. However, downward trend in UFG has set in from March onwards.

The Company strongly took-up the matter of anomaly in levy of minimum tax which led to its withdrawal. The incidence of corporate tax is thus reduced to standard 35% in the current year. The net profit after tax for the nine months period therefore stands at Rs. 392 million compared with Rs. 319 million for the same period last year. (EPS Rs. 0.58)

REINSTATEMENT OF WORKERS

The Company was engaged in prolonged litigation against reinstating a large number of temporary trainees/ temporary assignees who were inducted during the period between 1996 and 1998 and relieved later on. Finally the Government has come up with an Ordinance giving such sacked workers a claim to their old jobs. The Company has complied with the legal provisions of the Ordinance and reinstatement of such temporary persons is in progress. The Government has been requested to fund the cost of extra hands. A separate cell has been formed in the HR Department to hire, train and deploy all such old workers who have submitted their joining reports.

DEVELOPMENT PROJECTS

The capital expenditure was Rs. 5.0 billion as compared to Rs. 4.2 billion for the previous corresponding period and addition to assets were Rs. 4.2 billion versus Rs. 2.7 billion last year. The capex is proceeding as per plan and higher level of capitalization of upto Rs. 7 billion is likely to be achieved by the year end which should also favourably impact PAT.

Salim Abbas Jilani
Chairman

Umair Khan
Managing Director