

# NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)

for the quarter ended 30 September 2009

## 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.) Limited 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 information includes the financial information 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 information.

Intra-group balances and transactions have been eliminated.

## 2. Basis of preparation

This consolidated financial information has been prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" and is 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 information comprises of the consolidated balance sheet as at 30 September 2009 and the consolidated profit and loss account, consolidated statement of changes in equity and the consolidated cash flow statement for the quarter ended 30 September 2009 which are unaudited.

## 3. Accounting policies

The accounting policies adopted in the preparation of this consolidated financial information are the same as those applied in preparation of the annual audited consolidated financial information of the Company for the year ended 30 June 2009.

## 4. Estimates

The preparation of consolidated financial information 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 estimating uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2009.

**5. Financial risk management**

The Company's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 30 June 2009.

		<b>30 September 2009 (un-audited)</b>	30 June 2009 (audited)
	<i>Note</i>	(Rupees in thousand)	
<b>6. Property, plant and equipment</b>			
Operating assets	6.1	<b>34,563,031</b>	34,557,963
Capital work-in-progress	6.2	<b>3,855,271</b>	3,537,669
		<b><u>38,418,302</u></b>	<u>38,095,632</u>

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

Details of additions to and disposal of operating fixed assets during the quarter ended 30 September 2009 are as follows:

	<b>Cost of additions</b>	<b>Written down value of (disposals/ transfers)</b>
	(Rupees in thousand)	
<b>Owned</b>		
Gas transmission and distribution pipeline system	<b>662,430</b>	-
Plant, machinery and other equipment	<b>13,172</b>	-
Motor vehicles	<b>3,579</b>	<b>839</b>
Buildings	<b>23,305</b>	-
	<b><u>702,486</u></b>	<b><u>839</u></b>
<b>6.2 Capital work-in-progress</b>		
<b>Projects:</b>		
Gas transmission and distribution system	<b>896,944</b>	<b>(550,854)</b>
Cost of building under construction	<b>11,256</b>	<b>(39,744)</b>
	<b>908,200</b>	<b>(590,598)</b>
Financial charges capitalised	<b>73,329</b>	<b>(73,329)</b>
Depreciation charged to projects	<b>38,559</b>	<b>(38,559)</b>
	<b><u>1,020,088</u></b>	<b><u>(702,486)</u></b>
	<b>30 September 2009 (un-audited)</b>	30 June 2009 (audited)
	(Rupees in thousand)	

**7. Long-term investments**

Investments in related parties	<b>58,610</b>	66,783
Other investments	<b>47,386</b>	35,559
	<b><u>105,996</u></b>	<u>102,342</u>

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

Inter State Gas System (Private) Limited		
510,000 ordinary shares of Rs. 10 each	8.1	<b>5,100</b>
		<u>5,100</u>

**8.1** This represents a 51% (June 2009: 51%) interest of SSGCL share in Inter State Gas Systems (Private) Limited (the jointly controlled entity).

	Note	<b>30 September 2009 (un-audited)</b> (Rupees in thousand)	30 June 2009 (audited)
<b>9. Trade debts</b>			
Considered good - secured		<b>6,897,521</b>	6,909,685
Considered good - unsecured		<b>27,008,702</b>	25,658,520
		<b>33,906,223</b>	32,568,205
Considered doubtful		<b>2,229,496</b>	2,163,753
		<b>36,135,719</b>	34,731,958
Provision against impaired debts		<b>(2,229,496)</b>	(2,163,753)
		<b>33,906,223</b>	32,568,205
<b>10. Other receivables - considered good</b>			
Gas development surcharge receivable from GoP		<b>1,262,787</b>	5,363,824
Receivable from Sui Northern Gas Pipelines Limited (SNGPL)	10.1	<b>5,499,766</b>	8,019,730
Receivable from Jamshoro Joint Venture Limited (JJVL)		<b>637,518</b>	303,506
Sales tax receivable		<b>9,043,666</b>	8,683,445
Receivable from staff pension fund - non executives		<b>168,733</b>	168,733
Balance receivable for sale of gas condensate		<b>77,333</b>	155,480
Pipeline rentals receivable		<b>20,675</b>	20,221
Claims receivable		<b>2,011</b>	1,266
Miscellaneous	10.2	<b>226,730</b>	255,409
		<b>16,939,219</b>	22,971,614
Provision against impaired receivables		<b>(1,485)</b>	(1,485)
		<b>16,937,734</b>	22,970,129
<b>10.1</b>	This includes pipeline rentals receivable Rs. 94.666 million (June 2009: Rs. 79.842 million) and Rs. 5,404.988 million (June 2009: Rs. 7,939.768 million) receivable under the uniform cost of gas agreement with Sui Northern Gas Pipelines Limited.		
<b>10.2</b>	This includes Rs. 206.886 million (30 June 2009: Rs.225.694 million) recoverable from GoP under deferred tariff adjustment.		
<b>11. Trade and other payables</b>			
Creditors for:			
- gas		<b>39,382,738</b>	45,490,188
- supplies		<b>103,380</b>	122,111
Amount received from customers / GOP for laying of mains etc.		<b>2,815,947</b>	2,806,125
Accrued liabilities		<b>938,131</b>	1,117,300
Provision for compensated absences - non executives		<b>83,791</b>	83,791
Payable to staff gratuity fund - non executives		<b>1,493</b>	-
Deposits / retention money		<b>162,435</b>	194,589
Foreign bills payable		<b>-</b>	23,521
Advance for sharing right of way		<b>18,088</b>	18,088
Unclaimed dividend		<b>40,096</b>	40,187
Unclaimed TFC redemption/ profit		<b>1,975</b>	1,975
Withholding tax payable		<b>39,000</b>	51,685
Inter State Gas System (Private) Limited (ISGSL)		<b>4,906</b>	8,628
Others		<b>147,524</b>	141,558
		<b>43,739,504</b>	50,099,746

	30 September 2009 (un-audited) (Rupees in thousand)	30 June 2009 (audited)
<b>12. Deferred credit</b>		
<b>- Government contributions / grants</b>		
Balance at 1 July	2,161,269	1,444,501
Addition during the period	43,303	810,526
	<b>2,204,572</b>	2,255,027
Transferred to profit and loss account	(23,153)	(93,758)
	<b>2,181,419</b>	2,161,269
<b>- Contribution from customers</b>		
Balance at 1 July	2,685,259	2,375,430
Addition during the period	43,592	514,002
	<b>2,728,851</b>	2,889,432
Transferred to profit and loss account	(49,362)	(204,173)
	<b>2,679,489</b>	2,685,259
	<b>4,860,908</b>	4,846,528

### 13. Contingencies and commitments

13.1 There has been no significant change in contingencies since the preceding annual published financial statements except for the matters stated as under:

13.2 Claims against the Company not acknowledged as debt	13.6	<b>518,163</b>	518,163
13.3 Aggregate commitments for capital and other expenditure		<b>1,434,831</b>	1,051,609
13.4 Guarantees issued on behalf of the Company		<b>1,791,423</b>	1,792,153
13.5 Demand finance facilities to the Company's employees		<b>15,418</b>	16,797

13.6 The management is confident that ultimately these claims (note 13.2) would not be payable.

	Quarter ended 30 September 2009 (un-audited) (Rupees in thousand)	2008
<b>14. Other operating expenses</b>		
Auditors' remuneration	313	313
Workers' Profit Participation Fund	10,329	7,001
Exchange loss on foreign transactions	105,771	919,148
Others	4,775	10,442
	<b>121,188</b>	936,904

**Quarter ended 30 September**  
**2009**                      2008  
**(un-audited)**  
(Rupees in thousand)

<b>15. Other operating income</b>			
	<b>- Income from other than financial assets</b>		
	Meter rentals	<b>134,200</b>	139,593
	Recognition of income against deferred credit	<b>72,515</b>	67,790
	Sale of gas condensate	<b>110,033</b>	213,141
	Gas shrinkage - JJVL	<b>806,355</b>	770,837
	Gas transportation	<b>13,256</b>	12,655
	Royalty income	<b>539,104</b>	569,763
	Meter manufacturing profit - net	<b>39,778</b>	33,268
	Income from LPG distribution operation in Gwadar	<b>3,386</b>	3,410
	Gain on sale of fixed assets	<b>3,813</b>	3,783
	Recoveries from customers	<b>6,933</b>	6,755
	Liquidity damages recovered	<b>6,120</b>	727
	Advertising income	<b>1,415</b>	1,192
	Miscellaneous	<b>4,242</b>	2,985
		<b>1,741,150</b>	1,825,899
	<b>- Income from investment in debts, loans, advances and recoveries from related party</b>		
	Contingent rental income - SNGPL	<b>5,620</b>	4,438
		<b>1,746,770</b>	1,830,337
<b>16. Other non-operating income</b>			
	<b>- Income from financial assets</b>		
	Late payment surcharge	<b>196,617</b>	78,726
	Income from net investment in finance lease	<b>13,365</b>	12,163
	Interest / profit on bank deposits	<b>40,629</b>	36,241
	Interest on staff loans	<b>405</b>	578
	Interest income from KESC	<b>514,721</b>	232,382
	Interest income from WAPDA (JPCL)	<b>134,488</b>	-
	Interest income from SNGPL	<b>144,280</b>	-
	Interest income from JJVL	<b>26,004</b>	13,208
		<b>1,070,509</b>	373,298
	<b>- Income from investment in debts, loans, advances and recoveries from related party</b>		
	Income from net investment in finance lease - SNGPL	<b>34,222</b>	39,787
	Income from net investment in finance lease - OGDCL	<b>1,156</b>	1,651
		<b>1,105,887</b>	414,736
<b>17. Finance cost</b>			
	Mark-up on :		
	- musharaka	<b>303,375</b>	308,678
	- local currency financing	<b>430,548</b>	250,286
	- short term financing	<b>51,216</b>	52,459
	- consumers' deposits	<b>23,854</b>	17,480
	- delayed payment of gas bills	<b>771,603</b>	232,382
	- others	<b>2,291</b>	214
		<b>1,582,887</b>	861,499
	Finance cost charged to projects	<b>(73,329)</b>	(30,294)
		<b>1,509,558</b>	831,205

**Quarter ended 30 September**  
**2009**                      **2008**  
**(un-audited)**  
(Rupees in thousand)

<b>18. Taxation</b>		
Current	<b>130,936</b>	-
Deferred	-	46,558
	<b>130,936</b>	<b>46,558</b>
Current tax has been provided under Section 113 of the Income Tax Ordinance 2001.		
<b>19. Cash generated from operations</b>		
Depreciation	<b>658,020</b>	675,978
Amortization of intangibles	<b>10,953</b>	13,533
Finance cost	<b>1,509,558</b>	831,205
Amortization of transaction cost	<b>1,226</b>	1,226
Provision against doubtful debts	<b>65,743</b>	65,818
Provision for employee benefits	<b>55,782</b>	27,762
Recognition of income against deferred credit	<b>(72,515)</b>	(67,790)
Profit / interest on term deposits	<b>(860,527)</b>	(282,409)
Income from net investment in finance lease	<b>(48,743)</b>	(53,601)
Profit on disposal of fixed assets	<b>(3,813)</b>	(3,783)
Net cash generated from operations	<b>1,315,684</b>	<b>1,207,939</b>
<b>20. Changes in working capital</b>		
Stores and spares	<b>44,250</b>	164,238
Stock-in-trade	<b>14,746</b>	93,362
Customers' installation work-in-progress	<b>2,098</b>	6,956
Trade debts	<b>(1,403,761)</b>	(7,396,863)
Loans and advances	<b>(107,515)</b>	(106,428)
Trade deposits and short term prepayments	<b>(24,731)</b>	49,872
Other receivables - net	<b>6,032,395</b>	(1,399,324)
Trade and other payables - net	<b>(6,360,151)</b>	10,118,023
	<b>(1,802,669)</b>	<b>1,529,836</b>
<b>21. Cash and cash equivalents</b>		
Cash and bank balances	<b>1,363,831</b>	5,125,780
Short term borrowings	<b>(1,913,662)</b>	-
	<b>(549,831)</b>	<b>5,125,780</b>
<b>22. Transactions with related parties</b>		

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 this financial information are as follows:

		<b>Quarter ended 30 September</b>	
		<b>2009</b>	<b>2008</b>
		<b>(un-audited)</b>	
	<i>Note</i>	(Rupees in thousand)	
<b>Sui Northern Gas Pipelines Limited</b>			
- Pipeline rental income		<u>97,377</u>	<u>103,399</u>
- Sale of gas meters		<u>257,705</u>	<u>279,547</u>
- Gas purchases		<u>61,425</u>	<u>24,033</u>
- Uniform cost of gas		<u>4,307,479</u>	<u>6,597,648</u>
<b>Oil and Gas Development Company Limited</b>			
- Pipeline rental income		<u>9,041</u>	<u>9,816</u>
- Gas purchases		<u>4,798,370</u>	<u>5,641,276</u>
<b>Mari Gas Company Limited</b>			
- Gas purchases		<u>2,036</u>	<u>1,449</u>
<b>State Life Insurance Corporation Limited</b>			
- Rent of premises		<u>131</u>	<u>137</u>
<b>Liaqat National Hospital</b>			
- Medical services		<u>4,790</u>	<u>4,180</u>
<b>Inter State Gas Systems (Private) Limited</b>			
- Reimbursement of expenses on the basis of joint venture agreement		<u>8,224</u>	<u>9,872</u>
<b>Petroleum Institute of Pakistan</b>			
- Subscription		<u>243</u>	<u>241</u>
<b>Siemens Pakistan Engineering Limited</b>			
- Supplies and maintenance		<u>-</u>	<u>632</u>
<b>Dawood Islamic Bank Limited</b>			
- Profit on investments		<u>22,431</u>	<u>-</u>
<b>Staff retirement benefit plans</b>			
- Contribution to provident fund	22.1	<u>25,990</u>	<u>18,388</u>
- Contribution to pension fund		<u>(25,354)</u>	<u>(4,419)</u>
- Contribution to gratuity fund		<u>29,284</u>	<u>27,140</u>
<b>Remuneration of key management personnel</b>			
	22.2	<u>16,436</u>	<u>15,885</u>

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

**22.2** Remuneration to the executive officers of the Company are as per the terms of employment.

**22.3** Several companies in which SSGCL Directors are also interested as Directors are customers for the gas sold by the Company. This sale is made at prices notified by the GOP for all the industrial and commercial establishments.

- 22.4** Banking relationship maintained with the related parties (common directorship) at normal commercial terms.
- 22.5** Gas purchases figures reported above and sale of meters to SNGPL are exclusive of GST.
- 22.6** As per agreement for equalization of cost of gas between SSGCL and SNGPL, monthly adjustment is effected to equalize the input cost of gas of both the companies.

**22.7 Amount (due to) / receivable from related parties**

The details of amount (due to) / receivable from related parties not disclosed elsewhere in this financial information are as follows:

	Receivable / (Payable) at <b>30 September</b> <b>2009</b> <b>(un-audited)</b> (Rupees in thousand)	30 June 2009 (audited)
<b>Sui Northern Gas Pipelines Limited</b>		
- Lease rentals	<u>97,377</u>	<u>79,842</u>
- Sale of gas meters	<u>72,955</u>	<u>15,258</u>
- Gas purchases	<u>(88,108)</u>	<u>(26,683)</u>
- Cost of gas levelisation	<u>5,404,988</u>	<u>7,939,768</u>
<b>Oil and Gas Development Company Limited</b>		
- Gas purchases	<u>(12,514,327)</u>	<u>(12,924,481)</u>
<b>Mari Gas Company Limited</b>		
- Gas purchases	<u>(1,515)</u>	<u>(3,478)</u>
<b>Inter State Gas Systems (Private) Limited</b>		
- Reimbursement of expenses on the basis of joint venture agreement	<u>(4,906)</u>	<u>(8,628)</u>
<b>Dawood Islamic Bank Limited</b>		
- Bank balances	<u>98,887</u>	<u>51,134</u>
- Profit receivable	<u>22,431</u>	<u>8,800</u>

**23. General**

- 23.1** This interim financial information was authorized for issue on 29 October 2009 by the Board of Directors of the Company.
- 23.2** Previous period's figures have been rearranged wherever necessary, for the purpose of comparison.
- 23.3** Figures have been rounded off to the nearest thousand rupees.



**Shahid Aziz Siddiqui**  
Director



**Umair Khan**  
Managing Director

Karachi  
29 October 2009