

# DIRECTORS REPORT

On behalf of the Board of Directors of Sui Southern Gas Company Limited, we are pleased to present the un-audited results for the first quarter ended 30 September 2009.

## REVIEW OF OPERATIONS

Gas sales volume during the quarter increased to 101 bcf versus 97 bcf in the corresponding period of FY 2008-09. By value (after GST) it increased to Rs. 27.6 billion as compared to Rs. 25.9 billion. Conversely, cost of gas sold dipped to Rs. 22.4 billion versus 24.1 billion of the comparative quarter of previous year. The increase or decrease in sale and purchase price has no impact on Company's profits due to its unique tariff regime.

In the three months period, your Company extended 81 new industrial connections, 441 commercial and 28,282 domestic. As a result, Company's customer base increased to 2.174 million. Gas Distribution System was extended by 595 km while another 87 km of distribution lines were laid under rehabilitation activities. With increased emphasis on domestic connections, especially in new towns and villages, the Company's resources are overstretched leading to additional UFG whereas recoveries are also posing a serious challenge.

Meter manufacturing plant produced 138,840 meters versus 174,850, a decrease of 21%. Sales to SNGPL were 105,000 meters as compared to 138,100 meters reflecting a decrease of 24%. The profit of the plant increased by Rs.6 million to Rs. 39 million as compared to corresponding period due to increase in sales prices of G-1.6 and G-4 meters.

There is a compensating increase of Rs. 794 million in non-operating income and increase of Rs. 771 million in financial cost mainly due to booking of financial charges on delayed recoveries from KESC, WAPDA and SNGPL and delayed payments to producers namely OGDC, PPL and GHPL. Blockade of sales tax refund to the tune of Rs. 7.5 billion is getting unbearable with no immediate relief in sight. FBR has admitted that system issues are causing the delay in processing the refund claims and the Company is pursuing the matter vigorously. Meanwhile your Company has to bear the burden of financial charges on the overdue claims amount which is not allowed in tariff by OGRA.

Profit before tax is recorded slightly higher than the comparative quarter of last year. However the re-imposition of minimum tax on turnover has been most unfortunate and has impacted the Company badly. As a regulated utility Company, the sales figures achieved is in billions and it is unfair to tax it on that basis as the bulk flows out as cost of gas. There is no correlation between turnover and profit in SSGC case. Further, there is no harmonization between turnover definition as per tax laws and turnover definition by OGRA which excludes cost of gas from turnover. Your Company has engaged tax consultants for better tax planning. Profit after tax stands at Rs. 65 million.

Unaccounted for Gas phenomenon, being gas volumes lost during transmission and distribution operations, is crucial to Company's bottom-line. After a great deal of efforts and deploying of resources, the UFG element was brought down to 6.43% compared to 6.87% of the corresponding quarter of the previous year and 7.93% for the whole of FY 2008-09. The excess UFG of 1.43% over permitted bench mark of 5% for FY 2009-10 resulted in loss in tariff return of Rs. 320 million compared to the hit of Rs. 414 million suffered in the corresponding quarter of the previous year. Obviously the Management and the Directors are concerned and taking all possible steps to bring about more improvement as it directly impacts Company's profitability. UFG control actions are also being monitored closely by our Audit Committee of Directors.

It is interesting to note that until 2003 the actual UFG has remained well above 7% per annum and no penalty was charged on UFG. After its establishment OGRA set efficiency benchmarks which were based on the best benchmarks of the most developed countries of the world and the ground realities of our country were not taken into account consequently your Company is extensively penalized on this account resulting in massive erosion of profits.

## **DEVELOPMENT PROJECTS**

Capital expenditure incurred in the three months added upto Rs. 908 million as compared to Rs. 1,909 million for the previous corresponding period. Transfer to fixed assets amounted to Rs. 702 million versus Rs. 801 million in the corresponding period of the previous year.

In close collaboration with SNGPL and Itron of France under whose license G-4 meters are produced, the Meter Plant is working to produce a most modern meter, specifically made for local environment and with a number of anti-theft devices. This state of the art V-3 model is expected to be introduced by year's end.

As the facilitator of Pakistan 'Mashal' LNG Project (PMLP), the Company has issued a letter of support to 4Gas to facilitate them to secure LNG for PMLP. The completion of project is planned in 2011-12 using initially a Floating Storage and Re-gasification Unit (FSRU) based solution followed by a conventional land based terminal. Currently the GoP appointed price negotiation committee is meeting LNG suppliers and terminal developers to finalize terminal tariff and LNG pricing mechanism for subsequent approval by ECC.



**Shahid Aziz Siddiqui**  
Director



**Umair Khan**  
Managing Director