

## 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 2010. The fiscal year 2009-10 has seen national energy shortages take a turn for the worse. Under the circumstances your Company has been successful in maintaining steady supplies to its customer base and gas has been allocated to power, industrial and CNG stations according to the best national interests.

### REVIEW OF OPERATIONS

Gas sales during the nine months period increased by 2% in volume and 7% in value (net of GST), standing at 290.7 bcf and Rs. 80.9 billion as compared to corresponding period last year. The average sales price per mmbtu increased by 5% to Rs. 298.60 versus Rs. 285.07. The increase or decrease in sales price has no impact on Company profits due to its unique tariff regime.

In this period, the Company extended 216 new industrial, 1,476 commercial and 84,019 domestic connections. Gas Distribution System was extended by 1,651 km while another 389 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.

The meter manufacturing plant produced 541,250 meters versus 499,710 meters produced in the corresponding period last year, an increase of 41,540 meters or 8%. Sales to SNGPL increased by 13% to 404,400 meters.

The operating cost also increased over the corresponding period by Rs. 1,026 million or 25% mainly due to impact of absorbing staff cost of reinstated workers, and increase in staff cost as a result of finalizing of CBA agreement. As % of revenues this increased to 6.1% versus 5.3% for previous period. Operating cost (excluding LNG, ISGSL & IDF cost) per MCF was Rs. 17.59 versus Rs. 14.40 of corresponding period last year.

Other operating income increased by Rs. 514 million or 11%, mainly due to increase in royalty income from JJVL, amortization of deferred credit and additional income on account of new service connections, partly offset by decrease in JJVL Gas shrinkage charges. Other non-operating income increased by Rs. 1,452 million or 57% to Rs. 4,020 million. This was mainly due to increase in interest income under various heads.

Financial charges increased by Rs. 374 million or 11% over corresponding period and stood at Rs. 3,780 million. This was mainly due to the impact of increased long term loans, accrual made for interest on delayed payment to gas producers and interest on consumer deposits.

The Company suffered a huge dent of Rs. 2,547 million in its tariff return in the 9 months period on account of "excess Unaccounted for Gas (UFG)". Despite efforts to control the UFG, it reached a level of 8.63% as against a limit of 5% allowed by OGRA. The Company posted profit before tax of Rs. 105 million as compared to profit of Rs. 603 million for the corresponding period. The minimum tax regime has pushed the Company in a loss of Rs. 306 million (EPS Rs. -0.46).

The return formula, coupled with penalties for excess UFG and HR benchmarks, is grossly inadequate. The Company has been forcefully pleading with the Government to rationalize the UFG and HR benchmarks at a justified level.

### **DEVELOPMENT PROJECTS**

The capital expenditure in the nine months period was Rs. 3.7 billion as compared to Rs. 5.0 billion for the previous corresponding period. Addition to assets was made to the tune of Rs. 3.3 billion versus Rs. 4.2 billion last year.

SSGC has inked an Extended Well Test Gas Sales and Purchase Agreement with Hycarbex-American Energy Inc., Operator of the Haseeb Gas Field. Under the agreement, the Company will receive upto 28 mmcf/d gas for a 15 months period, from Haseeb Gas Field. The delivery is expected to start in mid 2010.



**SALIM ABBAS JILANI**  
**CHAIRMAN**



**DR. FAIZULLAH ABBASI**  
**MANAGING DIRECTOR**

IMN:SAS  
27 April 2010