

Siemens (Pakistan) Engineering Company Limited
Notes to the Condensed Interim Financial Statements (Unaudited)
For the three months period ended December 31, 2008

1. LEGAL STATUS AND OPERATIONS

Siemens (Pakistan) Engineering Company Limited (the Company) is incorporated in Pakistan as a public limited company and its shares are quoted on the Karachi, Islamabad and Lahore Stock Exchanges. The Company is principally engaged in execution of projects under contracts and in the manufacture, installation and sale of electronic and electrical capital goods. The Company's registered office is situated at B-72, Estate Avenue, S.I.T.E., Karachi.

2. BASIS OF PREPARATION

2.1 These condensed interim financial statements have been prepared in accordance with the requirements of the International Accounting Standard 34 'Interim Financial Reporting' as applicable in Pakistan. These condensed interim financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2008. These condensed interim financial statements are unaudited and are being submitted to the shareholders as required by the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges and section 245 of the Companies Ordinance, 1984.

2.2 Functional and presentation currency

These condensed interim financial statements are presented in Pakistan Rupees which is the functional currency and figures are rounded off to the nearest thousand of rupees.

2.3 Use of estimates and judgements

The preparation of condensed interim financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing these condensed interim financial statements, the significant judgements made by the management in applying accounting policies include:

- Warranty obligations
- Provision for liquidated damages
- Provision against inventories and doubtful receivables
- Actuarial assumptions for the gratuity scheme and provision thereagainst
- Provision for current taxes and deferred taxation
- Cost of completion of contracts in progress and their results

3. ACCOUNTING POLICIES

All the accounting policies and methods of computation which were used in the preparation of financial statements for the year ended September 30, 2008 have been consistently applied in the preparation of these condensed interim financial statements for the three months period ended December 31, 2008.

4. TRADE AND OTHER PAYABLES

	As at December 31, 2008	As at September 30, 2008 (Audited)
	(Rupees in '000)	
Trade creditors	6,404,110	4,890,917
Accrued liabilities	1,945,080	1,496,336
Advances from customers		
- For goods	1,288,256	1,560,302
- For services including projects	4,262,530	5,309,275
Accrued mark-up on running finance facilities	1,806	1,077
Unearned portion of revenue and maintenance contracts	48,050	102,175
Workers' profits participation fund	3,056	141,646
Workers' welfare fund	91,641	82,860
Unclaimed dividend	8,842	8,208
Derivative financial instruments	220,910	242,950
Other liabilities	185,367	138,895
	14,459,648	13,974,641

5. PROVISIONS

	Warranties	Liquidated damages	Losses on sales contracts	Total
	----- (Rupees in '000) -----			
Balance as at October 1, 2008	431,589	1,507,887	92,312	2,031,788
Additional provisions	185,438	277,079	672	463,189
Reversals of utilised and unutilised amounts	(47,296)	(45,452)	(10,718)	(103,466)
Balance as at December 31, 2008	569,731	1,739,514	82,266	2,391,511

6. SHORT-TERM RUNNING FINANCES

	As at December 31, 2008	As at September 30, 2008 (Audited)
	(Rupees in '000)	
From an associate - unsecured	1,836,340	907,909
From others - secured	737	-
	1,837,077	907,909

6.1 Short-term running finance facilities available from various banks and financial institutions including SFS aggregated Rs 4,265.037 million as at December 31, 2008 (September 30, 2008: Rs 3,292.225 million). The mark-up on these facilities ranges between 6.01% to 18.10% (September 30, 2008: 2.28% to 15.38%) per annum and the facilities are secured, where applicable, by joint hypothecation of inventories of finished goods, work-in-process, raw materials and components and present and future trade receivables. These include facilities aggregating Rs 3,482.037 million (September 30, 2008: Rs 2,546.225 million) obtained in the United Arab Emirates (UAE) at 6.01% to 6.85% (September 30, 2008: 2.28% to 5.30%) per annum.

7. CONTINGENCIES AND COMMITMENTS

7.1 As at December 31, 2008 capital expenditure contracted for but not incurred amounted to Rs 41.315 million (September 30, 2008: Rs 150.997 million).

7.2 The following amounts of forward exchange contracts have been taken to hedge the foreign currency liabilities:

	As at December 31, 2008	As at September 30, 2008 (Audited)
	(Rupees in '000)	
Forward exchange contracts		
- Purchased value	7,447,406	7,917,909
- Fair value	7,365,546	7,797,659

7.3 There has been no change in the status of contingencies as stated in notes 11.2 to 11.6 to the financial statements of the Company for the year ended September 30, 2008.

8. PROPERTY, PLANT AND EQUIPMENT

	Note	As at December 31, 2008	As at September 30, 2008 (Audited)
		(Rupees in '000)	
Tangible			
Operating assets - at net book value		1,496,397	1,503,534
Capital work in progress - at cost	8.2	167,985	86,130
		1,664,382	1,589,664

8.1 Following is the cost of operating assets that have been added / disposed off:

	Additions		Disposals	
	For the three months period ended December 31, 2008	For the three months period ended December 31, 2007	For the three months period ended December 31, 2008	For the three months period ended December 31, 2007
	(Rupees in '000)		(Rupees in '000)	
Plant and machinery	24,758	1,139	215	-
Tools and patterns	703	8,345	96	228
Furniture and equipment	10,231	6,750	5,270	2,262
Vehicles	10,940	19,721	4,418	11,266
	46,632	35,955	9,999	13,756

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8.2 Capital work in progress	As at December 31, 2008	As at September 30, 2008 (Audited)
	(Rupees in '000)	
Building under construction	20,129	14,840
Plant, machinery and equipment under installation	145,763	60,533
Advances to suppliers	2,093	10,757
	167,985	86,130
9. INVENTORIES		
Raw materials and components	1,711,046	1,537,010
Goods-in-transit	1,215,032	972,811
Work-in-process	1,935,360	1,549,276
Finished goods	1,138,340	914,873
	5,999,778	4,973,970
Provision for slow moving and obsolete items	(387,432)	(385,288)
	5,612,346	4,588,682
10. TRADE RECEIVABLES		
Considered good		
Due from associates	20,118	984,050
Due from others	7,901,342	7,869,017
	7,921,460	8,853,067
Due against construction work in progress - others	5,444,855	2,274,218
	13,366,315	11,127,285
Considered doubtful - others	262,122	203,099
	13,628,437	11,330,384
Provision for doubtful receivables	(262,122)	(203,099)
	13,366,315	11,127,285
11. CASH AND BANK BALANCES		
With banks in		
- Current accounts	201,703	167,260
- Deposit accounts	720,353	3,008,978
Cheques in hand	139,035	224,497
Cash in hand	21,376	6,504
	1,082,467	3,407,239

11.1 The rates of mark-up on these accounts range from 10.25% to 13.50% (September 30, 2008: 7.50% to 13.70%) per annum.

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12. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE	For the three months period ended December 31, 2008	For the three months period ended December 31, 2007
Note	(Rupees in '000)	
(Loss) / profit for the period	(41,682)	179,202
	Number of shares	
Weighted average number of ordinary shares	8,247,037	8,247,037
	(Rupees)	
Basic and diluted (loss) / earnings per share	(5.05)	21.73
	(Rupees in '000)	
13. CASH GENERATED FROM OPERATIONS		
(Loss) / profit before tax	(72,214)	269,721
Adjustment for non-cash expenses and other items:		
Depreciation and amortisation	53,955	49,335
Provision for slow moving and obsolete inventories	2,144	73,789
Provision for doubtful trade receivables	59,023	80,115
Provision for Workers' Profit Participation Fund	-	15,025
Profit on sale of property, plant and equipment	(1,677)	(3,645)
Other non-current liabilities	251	(58)
Long-term receivables and prepayments	99,633	153,256
Retention money payable	(15,899)	(7,391)
Financial expenses	54,940	49,776
Financial income	(36,068)	(41,718)
Working capital changes	(2,495,465)	(1,163,127)
	(2,351,377)	(524,922)
13.1 Working capital changes		
(Increase) / decrease in current assets		
Inventories	(1,025,808)	(764,436)
Trade receivables	(2,298,053)	(1,083,622)
Other receivables	(154,195)	26,468
	(3,478,056)	(1,821,590)
Increase in current liabilities		
Trade and other payables	622,868	573,967
Provisions	359,723	84,496
	982,591	658,463
	(2,495,465)	(1,163,127)
14. CASH AND CASH EQUIVALENTS	As at December 31, 2008	As at December 31, 2007
	(Rupees in '000)	
Cash and bank balances	1,082,467	2,603,967
Short-term running finances	(1,837,077)	(1,089,970)
	(754,610)	1,513,997

15. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of SAG, its subsidiaries and associates and other companies with common directorship with significant influence on such other companies, employees retirement benefit funds and key management employees. Transactions with related parties can be summarised as follows:

	For the three months period ended December 31, 2008 (Rupees in '000)	For the three months period ended December 31, 2007
<i>Note</i>		
Parent company (SAG)		
Sales of goods and rendering of services	33,801	87,186
Purchases of goods and receipt of services	729,899	735,992
Commission and allowances earned	5,646	2,375
Dividends	327,067	327,067
Associated companies		
Sales of goods and rendering of services	45,596	109,032
Purchases of goods and receipt of services	916,118	423,029
Commission and allowances earned	18,364	1,787
Financial expenses	4,225	43,272
Financial income	8,622	978
Others		
Dividends	30	30
Contribution to employees retirement benefit funds	17,495	7,490
Compensation to key management personnel	62,052	51,758
	As at December 31, 2008	As at September 30, 2008 (Audited)
	(Rupees in '000)	
Receivables from		
- associates	20,118	984,050
- others	9,066	-
	29,184	984,050
Payables to associates (including short-term borrowings)	2,431,544	1,695,373
	For the three months period ended December 31, 2008	For the three months period ended December 31, 2007
	(Rupees in '000)	
15.1 The details of compensation to key management personnel are as follows:		
Short-term employee benefits	64,156	49,543
Post employment benefits	1,749	887
Other long-term benefits	95	95
(Reversal of accrual) / accrual for share based payments	(3,948)	1,233
	62,052	51,758

15.2 Transactions with related parties were carried out on commercial terms and conditions and at prices agreed based on inter company prices. Shared services are charged by SAG at uniform rates to all locations in the region.

16. INFORMATION ABOUT BUSINESS SEGMENTS

	Energy	Rotary machines and products	Industry automation and services	Other operations	Eliminations	(All rupees in '000) Company as a whole
-----For the three months period ended December 31, 2008-----						
REVENUE						
External sales	7,242,702	469,850	1,059,786	117,812	-	8,890,150
Inter-segment sales	534,980	82,140	25,153	189,672	(831,945)	-
Total revenue	<u>7,777,682</u>	<u>551,990</u>	<u>1,084,939</u>	<u>307,484</u>	<u>(831,945)</u>	<u>8,890,150</u>
RESULT						
Segment result	<u>(124,365)</u>	<u>26,695</u>	<u>58,595</u>	<u>(37,017)</u>	<u>-</u>	<u>(76,092)</u>
Unallocated corporate expenses						<u>(8,781)</u>
Interest expense						<u>(23,409)</u>
Interest income						<u>36,068</u>
Taxation						<u>30,532</u>
Loss for the period						<u>(41,682)</u>
OTHER INFORMATION						
Capital expenditure	<u>115,300</u>	<u>3,562</u>	<u>2,932</u>	<u>(670)</u>	<u>-</u>	
Depreciation and amortisation	<u>23,470</u>	<u>4,903</u>	<u>8,585</u>	<u>2,185</u>	<u>-</u>	
Non-cash expenses other than depreciation and amortisation	<u>23</u>	<u>(42)</u>	<u>(67)</u>	<u>(53)</u>	<u>-</u>	
-----As at December 31, 2008-----						
ASSETS AND LIABILITIES						
Segment assets	<u>17,677,674</u>	<u>1,740,644</u>	<u>2,108,484</u>	<u>670,048</u>	<u>-</u>	<u>22,196,850</u>
Unallocated corporate assets						<u>3,856,066</u>
Consolidated total assets						<u>26,052,916</u>
Segment liabilities	<u>12,570,054</u>	<u>975,081</u>	<u>1,306,229</u>	<u>235,107</u>	<u>-</u>	<u>15,086,471</u>
Unallocated corporate liabilities						<u>5,214,692</u>
Consolidated total liabilities						<u>20,301,163</u>
-----For the three months period ended December 31, 2007-----						
REVENUE						
External sales	3,181,104	455,080	471,713	71,147	-	4,179,044
Inter-segment sales	61,726	28,008	11,937	133	(101,804)	-
Total revenue	<u>3,242,830</u>	<u>483,088</u>	<u>483,650</u>	<u>71,280</u>	<u>(101,804)</u>	<u>4,179,044</u>
RESULT						
Segment result	<u>207,134</u>	<u>29,692</u>	<u>37,082</u>	<u>(13,144)</u>	<u>-</u>	<u>260,764</u>
Unallocated corporate expenses						<u>(23,954)</u>
Interest expense						<u>236,810</u>
Interest income						<u>(8,807)</u>
Taxation						<u>41,718</u>
Profit for the period						<u>(90,519)</u>
						<u>179,202</u>
OTHER INFORMATION						
Capital expenditure	<u>31,530</u>	<u>6,602</u>	<u>7,124</u>	<u>170</u>	<u>-</u>	
Depreciation and amortisation	<u>20,524</u>	<u>3,954</u>	<u>7,459</u>	<u>1,342</u>	<u>-</u>	
Non-cash expenses other than depreciation and amortisation	<u>(117)</u>	<u>(142)</u>	<u>266</u>	<u>101</u>	<u>-</u>	
-----As at September 30, 2008 (Audited)-----						
ASSETS AND LIABILITIES						
Segment assets	<u>13,839,386</u>	<u>1,517,220</u>	<u>1,928,789</u>	<u>639,723</u>	<u>-</u>	<u>17,925,118</u>
Unallocated corporate assets						<u>6,850,264</u>
Consolidated total assets						<u>24,775,382</u>
Segment liabilities	<u>11,777,042</u>	<u>1,115,411</u>	<u>1,517,081</u>	<u>233,062</u>	<u>-</u>	<u>14,642,596</u>
Unallocated corporate liabilities						<u>3,844,529</u>
Consolidated total liabilities						<u>18,487,125</u>

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- 16.1** Total sales include Rs. 5,563.857 million (December 31, 2007: Rs. 1,675.198 million) representing sales made in the region of UAE. The aggregate carrying value of segment assets in that region as at December 31, 2008 was Rs. 11,117.944 million (September 30, 2008: Rs. 8,002.478 million). Capital expenditure aggregating Rs. 8.220 million was made in that region during the three months period ended December 31, 2008 (December 31, 2007: Rs. 10.755 million).
- 16.2** In order to comply with the requirements of International Accounting Standard 14 'Segment Reporting' the activities of the Company have been grouped into four segments of related products and services. The energy segment mainly relates to supply and installation of transformers, switchboards, and other related power generation, transmission, and distribution equipment and related services. Rotary machines and product segment includes diesel generating sets, motors, alternators and drives etc. Industry automation and services segment includes designing, engineering and construction services in electrical field, mechanical field and information technology services. Other operations include supply and services of health care equipment.
- 16.3** The above mentioned segments do not necessarily match with the organisational structure of the Company.

16.4 Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of receivables, inventories and property, plant and equipment, net of allowances and provisions but do not include current and deferred income taxes. Segment liabilities include all operating liabilities and consist principally of accounts payable, advances and accrued and other liabilities.

17. GENERAL

- 17.1** Comparative figures have been rearranged and reclassified wherever necessary for the purpose of comparison. Major change represents reclassification of exchange gain pertaining to purchases and sales transactions from 'Other operating income' to 'Cost of sales'. This change was made for better presentation of transactions in the condensed interim financial statements of the Company.
- 17.2** These condensed interim financial statements were authorised for issue by the Board of Directors in their meeting held on January 29, 2009.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director