

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 half year ended 31 December 2006. A limited scope review by the statutory auditors, as required under the Code of Corporate Governance, has been carried out on the accompanying financial statements.

REVIEW OF OPERATIONS

Sales volume during the first half of the financial year 2006-07 increased 2% to 180 BCF and the corresponding value increased by 25% to Rs. 40 billion, reflecting a 23% increase in the weighted average tariff. The increase in volume was mainly on account of increased demand from industry. The Company's cost of gas per MMCF increased by 17%.

The production at the meter manufacturing plant was up 7.5% to 243,600 meters which is equivalent to operating at a capacity utilization of over 150%. The resultant increase in sales improved the profitability of this activity.

The Company's profit before tax for the first half year was Rs. 729 million compared with Rs. 800 million for the same period last year. The Company benefited from an increase in the regulated return resulting from the sizeable increase in the operating asset base during the previous year. However, this was adversely affected by the adjustment on account of excess Unaccounted for Gas over target set by OGRA and also due to the increase in financial charges. The financial charges increased by Rs. 330 million over the previous period, however, there was a corresponding offset against financial income amounting to Rs. 211 million. The net increase in financial charges reflected the increase in interest rates, volume of debt necessitated to fund the capital expenditure and utilization of short term facilities.

The net profit for the first half year improved to Rs. 485 million (EPS - Rs. 0.72) compared with Rs. 361 million (EPS - Rs. 0.54) for the same period last year.

DEVELOPMENT PROJECTS

Capital expenditure was Rs. 4.1 billion in the six months and indicative of the record target set for the year. Satisfactory progress was made on the major Transmission projects including the 24 inch diameter ILBP capacity expansion projects under GIREP II and the 18 inch diameter pipeline expansion under the QPCEP project which is essential to improve supply to Quetta region. An additional 751 km of mains and services was laid during the period including 295 km for enhancement of the distribution network to new towns and villages of Sindh and Balochistan. The customer base increased by 46,482 as a result of new connections and well above budgeted numbers.

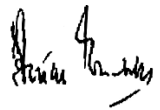
TECHNOLOGY INITIATIVES

The Company went "LIVE" in January 2007 with its world-class Customer Information System (CIS) which is programmed to improve delivery of service quality with better management control over the complete customer processes. The Human Resources module was added to the list of applications implemented under the ERP system.

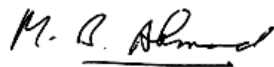
FUTURE OUTLOOK

The LNG import project, which is being facilitated by the Company, also made further progress with the dispatch of RFPs on receiving approval from the ECC for implementation of the project. Recent activity on the IPI cross border pipeline is also encouraging as this is a vital part of the country's strategy to ensure sustainable supplies of gas for the future.

The Company expects a significant boost in its fixed asset additions over the second half year in line with its plan to expand the transmission and distribution network to meet the growing demand.



Aitzaz Shahbaz
Chairman



Munawar B. Ahmad. P.E.
Managing Director

Karachi
28 February 2007