

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 nine months ended 31 March 2007.

REVIEW OF OPERATIONS

There was a nominal 1% increase in sales volume to 269,227 MMCF during the first nine months and the corresponding value increased by 16% to Rs 57 billion. The Company's cost of gas per MMCF increased by 15%. The well-head prices are linked to international oil prices and are determined as per agreements between the Government of Pakistan and the E&P Companies.

The production at the meter manufacturing plant was up slightly to 381,450 meters. Improvement in the sales mix in favour of higher margin meters resulted in the division increasing its profitability over the previous corresponding period by 16%.

Profit before tax for the nine months to 31 March 2007 was Rs 722 million compared with Rs 975 million for the corresponding period. The decrease is mainly on account of the adjustment for excess Unaccounted for Gas ("UFG") over OGRA benchmark and to a much lesser extent, financial charges. The impact of these was significantly more than the increase in the Formula Return resulting from the increase in the operating assets. Transmission and distribution costs as a percentage of revenue declined from 5.6% to 5.2%. Financial charges increased by Rs 420 million over the previous period, however, there was a corresponding offset against financial income amounting to Rs 327 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.

Net profit for the first nine months improved slightly to Rs 469 million (EPS - Rs 0.70) compared with Rs 444 million (EPS - Rs 0.66) for the same period last year.

DEVELOPMENT PROJECTS

Capital expenditure during the nine months was Rs 6.3 billion and indicative of achieving 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 1,857 km of mains and services was laid during the period including 705 km for enhancement of the distribution network to new towns and villages of Sindh and Balochistan. The customer base increased by 69,117 as a result of new connections and well above budgeted numbers.

TECHNOLOGY INITIATIVES

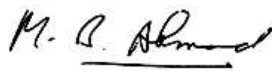
The Company went "LIVE" in January 2007 with its world-class Customer Information System (CIS) which is programmed to improve delivery of service quality with better management control over the complete customer processes. Some initial start-up problems were encountered which have now largely been resolved.

FUTURE OUTLOOK

The Company expects a significant increase in its fixed asset additions during the last quarter 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
30 April 2007