

## 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 first quarter ended 30 September 2006.

### REVIEW OF OPERATIONS

Sales volume during the first quarter increased by 3% to 90 BCF and the corresponding value increased by 28% to Rs 20 billion. The increase in volume was mainly on account of increased demand from industry. The Company's cost of gas per MMCF increased by 22%.

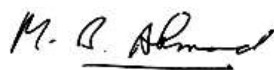
The production at the meter manufacturing plant was down 7% to 107,300 meters due to pending finalization of tender by SNGPL. Improvement in the margin of meters resulted in the division increasing its profitability.

The profit before tax for the three months to 30 September 2006 was Rs 555 million compared with Rs 526 million for the corresponding period. The Company has benefited from an increase in the regulated Return resulting from the increase in the operating assets. The increase would have been greater but for the toughening of the target for Unaccounted for Gas ("UFG") for which there has been a slight adverse adjustment to the profit before tax and also due to the increase in financial charges. Transmission and distribution cost as a percentage of revenue declined from 5.6% to 5.1%. The financial charges were up Rs 122 million over the corresponding period reflecting 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 quarter was Rs 361 million compared with Rs 342 million for the same period last year.

### DEVELOPMENT PROJECTS

Capital expenditure was Rs 2.1 billion in the three months with capital commitments a further Rs 2.0 billion. Satisfactory progress was made on the 24 inch diameter Capacity Expansion Projects which are on target for completion this financial year. An additional 254 km of mains and services were laid during the period, an increase of 47% over the same period last year. The distribution network for provision of gas to new towns and villages of Sindh and Balochistan was enhanced by 111 km. The customer base was increased by 23,380 as a result of new connections and which is 30% more than the corresponding period.

  
**Aitzaz Shahbaz**  
Chairman

  
**Munawar B. Ahmad. P.E.**  
Managing Director

Karachi  
28 October 2006