



*Knowing trees, I understand the meaning of patience.
Knowing grass I can appreciate persistence.
Hal Borland*



CHAIRMAN'S REVIEW

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I am pleased to report on the achievements of another successful year, completed on June 30, 2005. This period relates to the tenure of the previous Board of Directors. The current Board was elected from June 26, 2005.

During the period under review, we have maintained our position as the leading supplier of natural gas in Pakistan. Our position enables us to develop our technological and managerial skills, offering better value for over 2.5 million consumers. Our constant effort to look after and expand our consumer base, is at the heart of our strategy for growth.

The Company sold 537 BCF gas which is 19% more as compared to the last year. Sales revenue achieved during this year is Rs 83 billion (Rs 64 billion for F.Y. 2003-04). This has increased by 30% over the last year. The Company managed its business with its own funds and no further borrowings were carried out, in spite of an ambitious programme for capital expenditure of more than Rs 7 billion, during this year. In fact the long term liabilities have been reduced by Rs 600 million approximately, over last year. The profit before tax was Rs 4,280 million against a pre-tax profit of Rs 3,664 million of last year; hence an increase of 17% over the previous year. The Company has contributed an amount of Rs 2,819 million towards national exchequer as Taxes which as compared to the last year increased by Rs 239 million. The profit after tax was Rs 2,755 million (Rs 2,297 million for F.Y. 2003-04). The earning per share for the year was Rs 5.52 (Rs 4.60 for F.Y. 2003-04). During the year, the Company maintained all the financial ratios as prescribed by the World Bank loan covenants, standard corporate practices and the State Bank of Pakistan.



Tecoma undulata Seem.

Common name: Forest fire
Vernacular name: Lahura
Economic age: 30 years

Distribution: Pakistan, India and Afghanistan. In Pakistan it occurs in Punjab, Sindh, Balochistan and NWFP roads and canals.

Uses: Fuel, ornamental, furniture and carving, medicinal (flowers as a vermifuge) and agricultural implements.

OPERATIONS

During the year under review the Company provided 174,306 domestic connections, 3,474 commercial connections and 422 industrial connections. The industrial connections provided to the CNG stations, substituted petroleum products and in case of power and cement plants replaced imported furnace oil/coal. This achievement has been possible with the concerted efforts of the employees, availability of gas and patronage of the Government of Pakistan to strive for industrialization.

The Transmission Department has managed to operate 6,121 kilometres of transmission lines (ranging from 18" to 36" dia). There have been certain ruptures of high pressure lines during the period under review, but the same were brought back to service within few hours of their occurrence and without any adverse affect to the consumers. The Transmission lines network was 5,776 kilometres till last financial year, additional 345 kilometres have been laid during the year under review. Compressors of 185,900 HP capacity were kept serviceable throughout the year and were used to their full capacity during winter season, to avoid drop in pressure, when the consumption was high.

The Service Departments have also kept the flag of the Company flying high with regard to environment, telecommunication, engineering services, human resource management, public relations, health and security issues. Especially the Supervisory Control And Data Acquisition (SCADA) system enabled the Management to locate the ruptures immediately after occurrence. This procedure checked the wastage of gas and maintenance service was rendered without loss of time. The Company also managed to continue gas supply to all major consumers during the Sui field crises, when this major production field had been closed down, due to law and order situation.



PROJECTS

Project-VIII, scheduled to be completed by December 31, 2005, was almost complete by June 30, 2005 i.e. six months earlier than the scheduled time. A total of 421 kilometres transmission lines (ranging from 10" to 36" dia) were commissioned under Project VIII, C-leg Augmentation and other projects. This addition in transmission lines has enhanced the system capacity by 300 MMCFD. The Company also completed the EPC (Engineering, Procurement & Construction) project of 77 kilometres, 10" dia pipeline for M/s MOL Hungary. This pipeline stretches from newly discovered gas source of





Taxus baccata

Common name: Taxus
 Vernacular name: Barmi
 Economic age: 130 years

Distribution: Chitral, Dir, Hazara,
 Swat and Azad Kashmir.

Uses: Fodder, fuel, timber,
 medicinal and soil erosion control.

Gurgari (NWFP) to Kohat and is currently supplying 35 to 40 MMCFD gas to the Company's network. The Project Department connected seventeen more towns with its pipeline network during the year under review.

REGULATORY FRAMEWORK

The Company is operating under the licence granted by the Regulator within specified areas, to undertake the business of gas transmission and distribution. Although a fixed return of 17.5% has been prescribed under World Bank loan covenants, however the Regulator has been authorized to prescribe prices to allow the final revenue, to the licensee after taking into account certain bench marks. The Regulator has reduced the total return of 17.5% by Rs 613 million for UFG being over and above the prescribed target of 6%. The Regulator has reduced the claim of certain expenses net amounting to Rs 16 million.

FUTURE OUTLOOK

The Company has been directed by the Government of Pakistan to extend its network to Murree Hills, Southern districts of NWFP and Punjab with a total capital cost over Rs 5 billion.



The Company is planning to complete gas supply to Murree during the next 12 to 14 months and the mega projects in NWFP and Punjab during the next 3 to 5 years. We have a target to provide 200,000 connections (all types) every year, within our area of activity. To supplement local production of gas, we are proceeding with import of gas in collaboration with M/s Sui Southern Gas Company Limited, from Iran, Qatar or Turkmenistan, which-ever source is more feasible.





Imported gas will enable the Company to continue its expansion plan, even if domestic gas supplies are exhausted or started dwindling.

Privatization Commission of Pakistan is also actively perusing to invite bids, to initiate the privatization process for this Company. The Company has envisaged Project-IX, which includes replacement of old lines, which have outlived their life, revamping of compression facilities, establishment of customer service points, proper training of our manpower, consumer facilitation for payment of monthly bills and catering for the industry's progress to facilitate national annual growth of 8%. Furthermore, the Company is introducing the Uniform System of Accounts prescribed by the Regulator for the industry.

I would like to take this opportunity to thank all

the out going Directors on your behalf for the valuable services rendered by them. The present Board comprises dynamic and seasoned members, who bring with them vast knowledge and expertise in multifarious fields, which will surely add value to the Company's operations.

Altaf M. Saleem
Chairman

Lahore
September 30, 2005



If we represent knowledge as a tree, we know that things that are divided are yet connected. We know that to observe the divisions and ignore the connections is to destroy the tree.

Wendell Berry

A photograph of several trees silhouetted against a bright sunset sky. The top and bottom of the image are framed by a teal gradient. A semi-transparent white horizontal band is centered over the trees, containing the text "DIRECTORS' REPORT" in a bold, teal, sans-serif font.

DIRECTORS' REPORT

DIRECTORS' REPORT

With pleasure, we present the Annual Report, together with the audited financial statements of the Company for the year ended June 30, 2005. The financial results of the Company have improved considerably and consequently used as basis for recommending the following appropriations:

ACCOUNTS

	Rupees in (000)
Profit before taxation	4,280,317
Provision for taxation	1,525,499
	<hr/>
Profit after taxation	2,754,818
Add: Unappropriated profit brought forward	6,321
	<hr/>
Profit available for appropriation	2,761,139
Appropriations:	
Proposed dividend @ Rs 3.00 per share	1,497,560
Unappropriated profit to be carried forward	1,263,579
	<hr/>

The earning per share for the year ended June 30, 2005 is Rs 5.52 as per computation below:

Profit after taxation (Rs in '000')	2,754,818
Ordinary shares in issue (Nos)	499,186,672
Earnings per share (Rs)	5.52

A general view of the performance of the Company and its various activities during the F.Y. 2004-05 are enumerated below:

YEAR UNDER REVIEW

During the year the Company met covenants agreed by the World Bank. However it could not primarily meet the benchmark on UFG prescribed by the Regulator and as a result, the return for the year on the aforesaid basis works out to 15.47% (15.8% year 2004).



Salix babylonica Boiss.

Common name:	Weeping willow
Vernacular name:	Bad-e-majnoo
Distribution:	Northern Areas and mountains of Balochistan.
Uses:	Fuel, dye, erosion control and reforestation, pulp and fodder.

SALES AND DEVELOPMENT

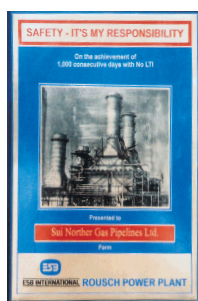
The total gas sales for the year under report, was 151,317,856 hundred cubic meters (HM³) (537,086 MMCF) showing a volumetric increase of 18.74% over the previous year. The sector-wise break-up of total sale indicates sale of gas to Power 38.67%, 7.97% Fertilizer, 3.58% CNG, 1.54% Cement, 23.56% General Industries and 24.68% to the Domestic and Commercial sectors.

The gas distribution network during the year was extended by 3,907 KMs, whilst 178,202 new consumers were added, raising the total consumers to 2,516,795. The Company is committed to make natural gas available to more prospective consumers, subject to its financial position, technical capabilities and availability of natural gas.

OPERATIONAL EFFICIENCY

Without any increase in manpower, the Company managed to transport and distribute 537.1 BCF gas compared to 452.3 BCF gas last year (19% increase).

OUR CONSUMERS



Our strategy is based on giving our customers excellent service. While we cannot afford to be complacent, we are happy to say with confidence that we are improving our service to our customers by the day. The Rousch Power Plant awarded a shield to the Company on achievement of 1000 “Consecutive Days” - Uninterrupted Gas Supply, with no Lost Time Incident (LTI) in a Safe Manner, which is a laurel for the Company. Some of the measures taken lately to improve customer service are :-



SALES INFORMATION SYSTEM (SIS)

Sales Information System (SIS) has been designed and introduced in the Company’s Regional Office, Lahore to streamline the process of new connections commissioned. All the processes, from acceptance of application upto gas provided and issuance of first bill are now automated, thus eliminating lengthy manual procedures. Through



this system, it is now possible to track the latest status of an application made for a connection at any stage. The system will soon be extended to other areas.

COMPLAINT MANAGEMENT SYSTEM (CMS)

Complaint Management System (CMS) is replacement of the manual system for handling consumer complaints. This includes entry of complaints, assigning of complaints and actions performed. The new system is providing real time data of complaints to the service departments and to the consumers. Team formation, shift management, creation of duty rosters and all other similar procedures are now automated and have helped improve redressal of the complaints process. It is currently installed at the Head Office and Regional Office, Lahore. In due course, it will also be extended to other regions/areas.

UNIVERSAL ACCESS NUMBER (UAN) 119

Universal Access Number (UAN) 119, an emergency telephone number, is available at all the Regions in the Company, round the clock. The Company has carried out a campaign for energy conservation through print and electronic media.



WEBSITE

The Company maintains a website www.sngpl.com.pk. developed by our in-house team. The information presented is promptly updated. The main features of the web site are:

- Company Information and Structure;
- Procedures for granting new connections along with provision for downloading of prescribed forms;
- Consumer Billing History for last 5 years;
- Downloading of duplicate consumer bill for payment;
- Quarterly and Final financial reports as prescribed by the SECP;
- Tenders, etc.
- New posts are advertised online and applicants can submit their applications through the web site.



Acacia modesta (Linn.) Wall.

Common name: Acacia
Vernacular name: Phulai, Palosa
Economic age: 30

Distribution: In Pakistan it is found below 1200 m in the foothill ranges of the Himalayas, Salt Range, Sulaiman Hills, Balochistan and Kirthar Range. It is also found in the plains close to these mountains.





ERROR FREE METER READING

The Company has introduced Hand Held Unit (HHU) for meter reading. This device is being used worldwide for the purpose of data entry at consumer premises. SNGPL, in order to remain abreast with the latest technologies, has also introduced the same. Initially these units were used in a few selected zones of Lahore Region. However, their usage is gradually being extended to other zones as well. Software application being used for the recording of meter reading on the HHU has been developed by an in-house team.

ONLINE BILL PAYMENT

In order to facilitate the consumers in payment of their gas bills, the Company is continuously taking measures to reduce the queues in front of the banks. SNGPL has entered into a contract with Bank Alfalah for the payment of gas bills through credit card, phone banking and the website. The same facility is being negotiated with other commercial Banks. Payment through pre-paid cards and other schemes is under consideration and will be available shortly.

The Company focuses on providing the best possible service to its consumers to meet the level of their satisfaction. The following steps have been taken to facilitate the consumers for achieving the desired objectives:

- Timely delivery of gas bills.
- Issuance of computerized duplicate bills.
- Gas bills displayed on internet are acceptable

for payment by the banks.

- Establishment of cash points at Company premises for receipt of bills and security deposits.
- Advance payment plan.
- Emergency complaint centers operating round the clock.
- Industrial Facilitation Centers.
- On going up-gradation of Transmission and Distribution network, to facilitate maximum consumers.



GAS SUPPLY TO NEW TOWNS

The Company successfully managed to supply gas to the following new towns:-

- | | |
|-------------------------|--------------|
| Khanpur | Lawrencepur |
| Kot Sabzal | Sanjarpur |
| (Sadiq Abad) | (Sadiq Abad) |
| Rajana (Toba Tek Singh) | Pir Mahal |



Zizyphus mauritiana Lam.

Common name: Chinese date
 Vernacular name: Ber
 Economic age: 20

Distribution: The tree is native to South Asia including Pakistan. It has been successfully cultivated in many parts of the world. It can be seen throughout Pakistan but it grows best at lower elevations in the Punjab, NWFP, Sindh and Balochistan.

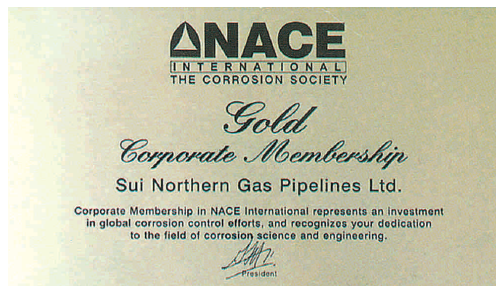
Uses: Fuel, charcoal, agricultural implements and fruit



Kundian	Karianwala (Gujrat)
Pindi Bhattian	Jalalpur Bhattian (Hafizabad)
Kamahanwala (Sialkot)	Hujra Shah Muqem
Haveli Lakha/Wasewala (Okara)	Kot Radha Kishan Swabi
Chowki Haraj (Khanewal)	Shah Jamal (Muzafargarh)

CORROSION CONTROL

The Management of the Company is fully cognizant of the fact that the buried pipelines network, is the most valuable asset of the Company. The Management's thrust has been to increase the protection level and the longevity of these pipelines. The corrosion control department has taken a variety of new initiatives to improve their cathodic protection levels and provided allied facilities. At the core of this endeavour is the programme to shift from conventional ways of corrosion monitoring, to modern practices being adopted world wide.



Under the reformed programme, following new establishments have been added in the Technical departments:

- Corrosion Control Database Cell
- Corrosion Control Training
- Fabrication of Transformer – Rectifier Units
- Corrosion Monitoring Activities

TELECOM DEPARTMENT

Data Network Infrastructure has been established over Digital Microwave Communication (DMC) System, by installing routers at major nodes like



Islamabad, Lahore, Multan, Faisalabad and Gujranwala Regional Offices. This network has provided a high speed data backbone, to interconnect the Company's offices for data processing, internet working and forthcoming MIS project. High speed Internet / Intranet services have been extended to regional offices over data network by bandwidth sharing. DMC system has been extended in the north to the newly constructed Peshawar Distribution Office. A new Gas Control Centre with Supervisory Control and Data Acquisition (SCADA) facilities

has been established at the Head Office. Video Conferencing link is in place between Gas Control Centre at Head Office and Faisalabad Transmission Headquarters to fully integrate the operational activities, at the two centres. This new SCADA and Video-Con set-up at Head Office has helped the Management enormously in winter load management and during pipeline emergencies. Voice communication services have been enhanced by installing Digital Exchanges at important compressor and repeater stations. Voice and data communication services have been provided for all pipeline construction camps and sites to help timely and efficient completion of projects. SCADA instrumentation is being installed on newly commissioned pipeline segments, for efficient monitoring and operational control.

HUMAN RESOURCE INITIATIVES

We continue to invest in the development of all our employees and ensure that we are providing a productive work friendly environment. The increase in productivity of our staff remains a commitment of the Board of Directors.

The Management of the Company is fully cognizant of the fact that human resource is the most valuable asset of the Company. It is the Company's policy to promote equal employment opportunities and eliminate discrimination. SNGPL carries out recruitment, mentoring and

training of its employees from diverse backgrounds, including persons with disabilities. There are female employees in both subordinate and executive cadres and there is no limitation to their career path. The Company maintains a work environment, free of harassment, intimidation and coercion in all its offices.

Training and organizational development is one area where continuous work needs to be done. In this context an In-house Training Institute at Kot Lakhpat, Lahore has been established. The Institute has started conducting in-house training programmes, hands-on training workshops, seminars and conferences. The significant aspect of the Institute is that the infrastructure and expertise required is based on in-house resources. Although, in its present form, this is a makeshift



arrangement, a comprehensive plan for upgrading it to the level of a professional Institute is underway.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

Significant progress has been achieved across the Company towards the installation of various standard components of HSE management programme. The component of HSE training is